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IN THE
Supreme Court of the United States

OCTOBER TERM 1978

No. _____

78-26

PETER M. ROBERTS,

Respondent,

vs.

SEARS, ROEBUCK AND CO.,

Petitioner.

**PETITION OF SEARS, ROEBUCK AND CO. FOR WRIT
OF CERTIORARI TO THE UNITED STATES COURT
OF APPEALS FOR THE SEVENTH CIRCUIT.**

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OPINION BELOW.

The opinion of the United States Court of Appeals for the Seventh Circuit is not yet officially reported. It is reprinted in the Appendix to this Petition, commencing at page A1.

STATUTES INVOLVED.

Consideration of three United States statutes is required: 35 U. S. C. §§ 102, 103, and 271. These statutes are set out *verbatim* immediately below:

§ 102. CONDITIONS FOR PATENTABILITY; NOVELTY AND
LOSS OF RIGHT TO PATENT.

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in
this country, or patented or described in a printed

publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or on an international application by another who has fulfilled the requirements of paragraphs (1), (2), and (4) of section 371(c) of this title before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to con-

ception by the other. July 19, 1952, c. 950, § 1, 66 Stat. 797.

§ 103. CONDITIONS FOR PATENTABILITY; NON-OBVIOUS SUBJECT MATTER.

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made. July 19, 1952, c. 950, § 1, 66 Stat. 798.

§ 271. INFRINGEMENT OF PATENT.

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by

reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. July 19, 1952, c. 950, § 1, 66 Stat. 811.

JURISDICTIONAL STATEMENT.

Judgment was entered by the United States Court of Appeals for the Seventh Circuit in this matter on April 3, 1978 (Appendix, p. A17). This Court has jurisdiction to review that judgment pursuant to 28 U. S. C. § 1254(1).

QUESTIONS PRESENTED FOR REVIEW.

1. May the holder of an invalid patent who sells the patent and receives the agreed purchase price from the purchaser thereafter recover \$1,000,000 upon a claim that the purchaser fraudulently acquired the invalid patent?¹

2. Is a defendant who has been sued for damages and charged with defrauding another of a patent denied a fair trial where it is prevented from proving the invalidity and lack of value of the patent, even though the plaintiff is permitted to introduce evidence which purports to show the validity and value thereof?

NATURE OF THE CASE.

This diversity action involves a \$1,000,000 judgment rendered as compensation for use of an invalid patent and a circuit court decision which is in conflict with and, if permitted to

1. Plaintiff also charged defendant with breach of a confidential relationship and negligence. The argument here presented is equally applicable to these theories of recovery.

stand, would overrule several decisions of this and other circuit courts.

In September, 1965, plaintiff obtained a patent for a "quick release" for a socket wrench (PX 60, DX 27).² Two earlier patents had been issued on the same concept but were not cited by the Patent Office when it issued plaintiff's patent (PX 60, DX 27).³ Defendant acquired the patent from plaintiff for \$10,000 pursuant to a written agreement.

Before he applied for the patent and commenced negotiations with defendant, plaintiff retained an attorney (T 208-209, 455-456). After plaintiff approached defendant, defendant's counsel conducted a patent search which disclosed 39 relevant prior art patents (DX 9). Although defendant's counsel, like the Patent Office, did not locate the crucial prior art Carpenter patent, defendant and its counsel nevertheless questioned the validity and scope of any patent which might ultimately issue to plaintiff (DX 8, 9, T 2146-2157)⁴ and, in a letter to plaintiff's counsel that referred to and relied on this patent search and the opinion of its counsel, defendant offered plaintiff \$10,000 to acquire the patent (PX 34).⁵

2. The patent provides for the release of a socket from a ratchet handle by means of a push button. The symbol "PX" refers to plaintiff's exhibits at trial, "DX" to defendant's exhibits, "T" to the trial transcript, "R" to the record on appeal, "PB" to plaintiff's brief on appeal, "PAB" to plaintiff's answering brief on appeal, and "C" to plaintiff's Second Amended Complaint.

3. One of these earlier patents issued to Eugene R. Carpenter in 1928 and entered the public domain when it expired in 1945 (DX 29). The other patent issued to Victor E. Gonzalez in March, 1965 (DX 28). The Patent Office obviously missed these prior patents when it issued a patent to plaintiff.

4. Defendant principally relies upon the Carpenter patent here. Moreover, defendant did not then have and the patent opinion was rendered without the benefit of plaintiff's patent application (T 2147, 2156-2157).

5. Defendant's concern was real, for in 1968 it was threatened with a patent infringement lawsuit by Victor E. Gonzalez and it was required to purchase the Gonzalez quick release feature for hand wrenches (DX 16-18, T 2266-2273).

Plaintiff's lawyer submitted several counter proposals (PX 28, DX 1, 14, T 472, 481-482, 519-520, 697-704, 2227, 2237). Some of these proposals were accepted by defendant and incorporated in the agreement as ultimately executed (DX 14, T 2227). This attorney also recommended to plaintiff that plaintiff accept defendant's offer if he could not obtain a better price elsewhere (PX 27, T 322-323, 472-473). Plaintiff inquired elsewhere but could not obtain a better price (T 660, 685-686, 739).

On June 15, 1965, after further consultation with his lawyer and his father (T 521-526), plaintiff executed a formal written agreement under which he agreed to assign his patent to defendant after payment of a \$10,000 royalty. Only after the patent subsequently issued to plaintiff and became public information did defendant begin to market the feature (PX 60, DX 27, T 1758). It thereafter discharged its royalty obligation to plaintiff under the agreement (PX 103, 110, 114, T 381-383).⁶

More than four years later plaintiff filed this lawsuit, charging that defendant had acquired the patent by means of fraud, breach of a confidential relationship and negligent misrepresentation. Defendant denied all material allegations of the complaint, denied that its conduct was wrongful or that plaintiff was damaged and pleaded as an affirmative defense that plaintiff's patent was invalid on the basis of prior art.

During the pretrial stage of the lawsuit, the District Court uniformly ruled on various occasions that the issue of patent invalidity was a basic one and that it would be tried first (R. 40, 56, 82).⁷ Indeed, on one occasion the District Court specifi-

6. Sales of defendant's ratchet wrenches increased during the period 1965-1976. However, sales of defendant's unrelated hardware items increased also, and this sales growth was attributed by defendant to the growth of the amateur "do-it-yourself" homeowner market (T 1784-1798).

7. These rulings were rendered by the two District Court Judges to whom the case was initially assigned for extended periods of time before trial.

cally and correctly held that, if the patent was invalid, defendant was entitled to judgment in its favor as a matter of law under this Court's decision in *Lear, Inc. v. Adkins*, 395 U. S. 653, 23 L. Ed. 2d 610 (1969) (R. 40).

However, the case was reassigned to a new District Judge shortly before the trial. When the trial began, this Judge ignored these earlier rulings and, while receiving evidence from plaintiff regarding prior art and the value of the patent (T 195-198, 302-303, 378-380, 736-738, 1441-1443, 1448, 1463, 1513-1516, 1517-1518, 1521, 1529, 2302), erroneously *refused* to receive defendant's evidence of relevant prior art and patent invalidity (T 2409-2413, 2416, 2425-2429, 2460-2470, 2594, 2600-2606, 2615, 2747-2749). Thus, the trial court erroneously excluded from evidence not only the crucial prior art Carpenter patent (DX 29, 37, T 2409-2413, 2416, 2425-2429, 2594, 2600) but also 7 other prior art patents that defendant knew of and relied upon when it negotiated its agreement with plaintiff (PX 20, 28, DX 8, 9, T 2600-2606, 2747-2749). The trial judge also refused to rule on the issue of patent invalidity (T 2567-2569, 2976) but nevertheless permitted plaintiff to argue to the jury that his patent was valid (T 3300, 3312-3314, 3316, 3322, 3330, 3331, 3337-3341).

Cross appeals were taken before the United States Court of Appeals for the Seventh Circuit. The Court of Appeals affirmed the \$1,000,000 judgment for plaintiff, inexplicably and incorrectly rejecting this Court's decision in *Lear, Inc. v. Adkins*, 395 U. S. 653, 23 L. Ed. 2d 610 (1969) and its progeny, and refusing to decide the fundamental issue of patent invalidity. It also remanded the matter for a determination of whether plaintiff may reacquire the patent by rescission of the agreement.⁸ Because of the substantial changes in federal law and policy necessarily wrought by this decision, including the rejection of

8. It is clear that, upon rescission of the agreement and return of the patent, plaintiff will assert the invalid patent against defendant and others (R. 33, 152, PB 18, 19).

this Court's *Lear* doctrine, defendant earnestly and respectfully petitions for a writ of certiorari.

ARGUMENT.

I. The Decision Below Conflicts with Federal Law and Contravenes Federal Policy Under the United States Patent Laws.

As this Court observed in *Lear, Inc. v. Adkins*, 395 U. S. 653, 23 L. Ed. 2d 610 (1969), it is basic that one who obtains an invalid patent may not recover damages or royalties from one who uses such a patent. If a patent is invalidated by an expired prior patent, it is valueless because anyone may use the structure without a patent under the express provisions of the Patent Act. 35 U. S. C. § 102. Likewise, if a patent is invalidated by an unexpired prior patent, it is equally valueless because, under the Patent Act, no one other than the prior patentee, his assigns or licensees may legally commercialize or use the structure. 35 U. S. C. § 271. Therefore, if plaintiff's patent is invalid, and it is, defendant paid him \$10,000 for something of no legal worth, plaintiff could not have been damaged as a matter of law and the award to him of \$1,000,000 for use of the invalid patent contravenes established law.

The purpose of the patent statutes is to award the inventor of a patentable invention with a monopoly that excludes all competitors for a limited period of time. An equally important purpose of the patent laws is to assure that one cannot use an invalid patent to suppress the use of an idea on which he has no legal monopoly. But the Seventh Circuit has rendered a decision here that contravenes these well settled maxims, which are expressed in its own decisions, the decisions of other Circuits and, of even more importance, the decisions of this Court.

Here, the parties entered into an agreement under which defendant agreed to purchase and plaintiff agreed to sell his

patent. Both parties fully performed. Plaintiff assigned the patent to defendant and defendant paid plaintiff the agreed royalties. Yet, when plaintiff sued defendant for damages claiming fraud and that the patent was worth more than the royalties paid, defendant was denied the right to prove that the patent it purchased was invalid, legally worthless, and not even worth the \$10,000 that defendant paid for it.

However, if instead of entering into and fulfilling its obligations under the agreement, defendant had merely copied plaintiff's patent, plaintiff's only cause of action would have been one for infringement of the patent. Under those circumstances, defendant obviously could have raised the defense of patent invalidity and, since the patent is invalid, as will hereafter be shown, plaintiff could not have recovered damages from defendant. *Popeil Brothers, Inc. v. Schick Electric, Inc.*, 494 F. 2d 162 (7 Cir. 1974); *Hoover Co. v. Mitchell Mfg. Co.*, 269 F. 2d 795 (7 Cir. 1959).

So, too, defendant could have consummated the royalty agreement with plaintiff but, instead of paying the royalty, as it did, refused to honor the agreement. Under this alternative, too, defendant could have successfully defended any suit by plaintiff on the ground that the patent is invalid and again plaintiff would not have been entitled to damages. It plainly follows that, in the case at bar, plaintiff cannot recover damages either.

The foregoing propositions have long been recognized by this Court. Thus, in *Lear, Inc. v. Adkins*, 395 U. S. 653, 23 L. Ed. 2d 610 (1969), plaintiff patentee disclosed his idea to defendant before his patent issued, and under an express license agreement defendant contracted to pay him a royalty. Defendant marketed the idea but breached its agreement and refused to pay the agreed royalty on the basis that the patent was invalid, *even though the agreement specifically required royalty payments until the patent was declared invalid*. This Court nonetheless ruled that the agreement was of no moment

and that defendant could avoid the payment of *all* royalties, including those which had accrued before the declaration of invalidity, if the patent was invalid:

It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly. 395 U.S. 653, 663-664, 23 L.Ed.2d 610, 619 (citations omitted).

* * * *

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.

* * * *

Nor can we accept a second argument which may be advanced to support [plaintiff's] claim to at least a portion of his post-patent royalties, regardless of the validity of the Patent Office grant. . . . Thus, it may be suggested that although [defendant] must be allowed to raise the question of patent validity in the present lawsuit, it must also be required to comply with its contract and continue to pay royalties until its claim is finally vindicated in the courts.

* * * *

[We] hold that [defendant] must be permitted to avoid the payment of *all* royalties accruing after [plaintiff's] 1960 patent issued if [defendant] can prove patent invalidity. 395 U. S. 653, 670-674, 23 L. Ed. 2d 610, 623-625 (emphasis added).

The *Lear* rationale was reiterated by this Court on several occasions, including *Blonder-Tongue Labs, Inc. v. University of Illinois Foundation*, 402 U. S. 313, 28 L. Ed. 2d 788 (1971) as follows:

Although recognizing the patent system's desirable stimulus to invention, we have also viewed the patent as a monopoly which, although sanctioned by law, has the economic consequences attending other monopolies. *A patent yielding returns for a device that fails to meet the congressionally imposed criteria of patentability is anomalous.* 402 U. S.

at 343, 28 L. Ed. 2d at 807 (emphasis added, footnote omitted).

If the *Lear* and *Blonder-Tongue* cases have any meaning or application, they must apply to the case at bar. As the defendant in *Lear*, this defendant executed an agreement and agreed to pay a royalty for a patent which it later determined was invalid. In *Lear*, the defendant was permitted to *avoid* its contractual obligations for the basic policy reason that this Court simply would not permit a patentee to extort any tribute whatsoever for an invalid patent. But unlike the defendant in *Lear*, this defendant did not avoid its contractual obligation. It honored the agreement and paid the full royalty. How can it be said that this defendant is in a less favorable position than the *Lear* defendant who breached its agreement? The bare statement of the proposition is its own refutation.

Nevertheless, the Court below erroneously concluded that *Lear* and *Blonder-Tongue* do not apply to this case because the equities here are not as "evenly balanced" as in *Lear* and because defendant is a patent owner, rather than a licensee.⁹ What the Seventh Circuit has done is to create novel exceptions to *Lear* that simply do not exist.

Even if, contrary to the fact, it could be said that the equities are not as evenly balanced here as they were in *Lear*, where the defendant flagrantly breached its contract, the Seventh Circuit's limitation of *Lear* to a situation where equitable balance exists is directly contrary to both the holding and the express language of the *Lear* opinion. This Court clearly ruled in *Lear* that the relative equities of the parties were irrelevant in light of the overriding federal policy in favor of free competition as follows:

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. 395 U. S. 653, 670, 23 L. Ed. 2d 610, 623.

9. Defendant refers to the Court of Appeals Opinion, at page A9 of the Appendix.

So, too, in *Scott Paper Co. v. Marcalus Mfg. Co., Inc.*, 326 U. S. 249, 90 L. Ed. 47 (1945), this Court ruled that Federal policy must always prevail, regardless of so-called equitable balance:

The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power. 326 U. S. 249, 257, 90 L. Ed. 47, 52.

Similarly, numerous other federal decisions, both prior and subsequent to *Lear*, including those of the Seventh Circuit, clearly confirm that the distinctions relied upon by the opinion below do not exist. Inexplicably, these decisions, although cited by defendant in its briefs below, are not even mentioned in the Seventh Circuit's opinion.

Significantly, for example, the broad federal policy expressed in *Lear* that there can be no recovery based upon an invalid patent was confirmed as early as *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 99 F. 2d 9 (1 Cir. 1938), *cert. denied*, 305 U. S. 659 (1939), where the Court of Appeals applied this doctrine in favor of a patent owner and irrespective of equitable balance.

In that case, strikingly similar to the one at bar, defendant entered into a contract with plaintiff whereunder plaintiff licensed defendant to use his patent, and defendant agreed to assign any improvement patent to plaintiff. Defendant obtained an improvement patent but *inequitably refused* to honor its agreement to assign its patent to plaintiff. Plaintiff sued defendant for breach of contract and defendant, *owner* of the patent, interposed, as an affirmative defense, the invalidity of its patent. Like the trial court here, the trial court there excluded defendant's evidence of prior art and refused to rule on the invalidity of defendant's own patent. A jury returned a \$2,000,000 verdict in favor of plaintiff. But the Court of Appeals reversed the judgment and rejected the trial court ruling that defendant could not interpose the invalidity of its patent as a defense. Instead,

the Court of Appeals ruled that prior art invalidating defendant's own patent was improperly excluded from evidence, that defendant's patent was invalid as a matter of law, that the invalidity of the patent rendered it valueless, and that, because the patent was invalid, plaintiff was not and could not have been damaged:

... *The two features in the . . . patent . . . were both old and left nothing of value in the . . . patent to be assigned to the plaintiff* under the letter-contract in suit hereinafter referred to. Therefore, even if the improvements claimed by the plaintiff had been assigned in accordance with the letter-contract, they could have added nothing of value to the [plaintiff's] patent, and the *failure to assign them deprived the plaintiff of nothing of value. . . . Hence, the actual damage suffered by the plaintiff through the failure to assign to it the [patent] in accordance with the letter-contract . . . could not have been more than nominal*, even assuming the so-called improvements claimed by the plaintiff were the result of the [patentee's] engineers and experts familiarizing themselves with the [plaintiff's] still under the contract . . . *Id.* at 12.

Unless the plaintiff has some effective reply, which we do not find in the record, to the defendant's contention that the use of [the patent] had long been anticipated by the [prior art] and was in the public domain, *the . . . patent must be held invalid.*

While some evidence of the prior art was admitted for the purpose of showing the state of the art in 1916, if all the evidence of the prior art offered by the defendant had been admitted showing anticipation . . . of the . . . patent, and to show the scope of the . . . patent, the *prima facie* evidence of validity of the . . . patent would have been destroyed and *the District Court must then have instructed the jury that the . . . patent issued in 1918 was invalid. Id.* at 13 (emphasis added).

Thus, the First Circuit in *Sinclair* held both that a defendant could challenge the validity of its *own* patent and that it could do so regardless of equitable balance. The Court also ruled the patent invalid as a matter of law and vacated plaintiff's damage award. To say the least, the opinion below is in hopeless conflict with this long standing decision.

Moreover, the Seventh Circuit's assertion that defendant is estopped to assert the invalidity of the patent, and that *Lear* does not apply to this defendant, because it holds an assignment of the patent is contrary not only to the holding in *Sinclair*, thus creating a conflict between the circuits, but is also contrary to the Seventh Circuit's own decisions. In *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F. 2d 55 (7 Cir. 1970), *cert. denied*, 401 U. S. 976 (1971), the Seventh Circuit itself unequivocally rejected the argument that *Lear* did not apply to an *exclusive licensee*, stating:

We reject the argument. Even if the failure to distinguish between exclusive and nonexclusive licenses was an oversight [in *Lear*], we are not convinced that the Supreme Court would rule differently on the facts of this case. Nor can we say that the distinction which the defendants suggest is so great as to require a limitation on the *Lear* rule, especially in light of the "strong federal policy favoring free competition in ideas which do not merit patent protection."

* * * * *

... [T]he whole purpose of this suit is to show that [the inventor] in fact invented nothing and that plaintiff was paying for the use of unpatentable ideas. Moreover, substantially similar arguments as the defendants make were rejected by the Court in *Lear*. 433 F. 2d at 58 (citations omitted).

It is, of course, well settled that an exclusive license is usually tantamount to an assignment and an exclusive licensee

is in the same position as an owner of a patent.¹⁰ *Waterman v. Mackenzie*, 138 U. S. 252, 34 L. Ed. 923 (1891); *Heywood-Wakefield Co. v. Small*, 96 F. 2d 496 (1 Cir. 1938); *Dynatech Corp. v. Frigitronics, Inc.*, 318 F. Supp. 851 (D. Conn., 1970); *All Steel Engines, Inc. v. Taylor Engines, Inc.*, 88 F. Supp. 745 (N. D. Cal., 1950), *aff'd*, 192 F. 2d 171 (9 Cir. 1951); *D. M. Sechler Carriage Co. v. Deere & Mansur Co.*, 113 F. 285 (7 Cir. 1902); *Green v. LeClair*, 24 F. 2d 74 (7 Cir. 1928); *Kenyon v. Automatic Instrument Co.*, 160 F. 2d 878 (6 Cir. 1947); *Hook v. Hook & Ackerman, Inc.*, 187 F. 2d 52 (3 Cir. 1951); *Hartford National Bank & Trust Co. v. Henry L. Crowley & Co.*, 219 F. 2d 568 (3 Cir. 1955). It is clear from these decisions that the *Lear* doctrine applies in favor of this defendant and that the distinctions imposed by the Seventh Circuit are contrary to law.

The Court of Appeals apparently recognized the dilemma created by its decision, for it implicitly concedes that, if plaintiff's patent is invalid, defendant did not obtain the monopoly that plaintiff purported to sell. In an effort to avoid this dilemma, the Court of Appeals sets forth the most novel proposition that defendant obtained a monopoly "in fact" when it acquired plaintiff's invalid patent (Opinion, p. A7 of the Appendix). But this unique theory is also contrary to *Lear*.

Thus, the language quoted by the Seventh Circuit from *Lear* that "the existence of an unchallenged patent may deter others from attempting to compete with the licensee" (Opinion, p. A7) was merely a hypothetical proposition, which was immediately followed by this Court's *holding* that the proposition, if true, was simply *irrelevant* in light of the overriding federal policy that

10. An exclusive license to make, use and sell an invention is an assignment under the law. The *Beckman* opinion does not report the provisions of the exclusive license in that case. However, the nature of the argument in that case implies that the exclusive license was an assignment.

there may be no recovery based upon an invalid patent (395 U. S. 670-671). Evidently, the Seventh Circuit misapprehended the *Lear* opinion.

Moreover, the Seventh Circuit itself previously rejected this so-called monopoly "in fact" theory in *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F. 2d 55 (7 Cir. 1970), *cert. denied*, 401 U. S. 976 (1971), when it ruled as follows:

Defendants attempt to distinguish the doctrines of licensee estoppel and estoppel by marking by suggesting that the former is based on principles of contract law, while the latter has its basis in equity. But defendants' arguments in support of each of these doctrines sound very similar, namely, that it is unfair for licensees to use the patent and accept the benefits of the license and then attack the validity of the patent. However, the Supreme Court in *Lear* rejected such arguments when applied to the licensee estoppel doctrine, and we think the Court's reasoning extends to the doctrine of estoppel by marking as well. *Defendants have not suggested any reason why the 'strong federal policy' in favor of encouraging challenges to invalid patents should not apply when there has been marking with the patent number. Perhaps it is true that such marking provides the licensee with additional protection from competitors, thus making it seem all the more unfair to allow him to repudiate his obligations. However, it must be noted that the Supreme Court in Lear conceded that patent invalidity does not amount to total failure of consideration, but nonetheless held that patent invalidity must be made a complete defense to the obligation to pay royalties. We cannot say that the additional consideration or 'benefit' flowing to the licensee who marks his products with the patent number is sufficient to make the Lear case and its policy rationale inapplicable.* 433 F. 2d at 59 (emphasis added).

Thus, the Seventh Circuit clearly and expressly recognized that patent marking could not avoid the clear and unequivocal import of *Lear*. As *Lear* confirms, it is well settled that a

monopoly, if it exists at all, can only exist where there is a valid patent. Neither marking the patented item with a patent number nor any other action can alter this inescapable proposition.¹¹

Even assuming *arguendo* that a "monopoly in fact" theory could somehow support recovery, and it cannot, the invalidity of plaintiff's patent was nevertheless a basic issue in the lawsuit. If, as is the fact, plaintiff's patent was rendered invalid by an expired patent improperly excluded from evidence, defendant could not possibly have monopolized the market in law or "in fact." Plaintiff or any competitor of defendant would have been perfectly free to market the wrench under the expired and publicly available patent.¹² And even if a "monopoly in fact" somehow existed, the prior art Carpenter patent and other patents excluded from evidence were still crucially relevant to the extent and value of this monopoly.

What the Opinion below accomplishes is to prevent the prompt resolution of patent invalidity and enforcement of the strong public policy which prohibits one from capitalizing on an invalid patent. Instead, the Seventh Circuit requires the payment of tribute to one who has obtained an invalid patent. Indeed, it specifically envisions the future litigation concerning patent validity which *Lear* expressly sought to avoid. If that future litigation results in a holding of invalidity, as defendant contends it must, then plaintiff will have received a \$1,000,000 windfall, unless this Court grants review.

11. The Court of Appeals misplaces reliance on *Kewanee Oil Co. v. Bicron Corp.*, 416 U. S. 470, 482 (1974). That decision merely recognized that a trade secret is protectable and that trade secret theory may exist coextensively with the patent laws. That decision is not apposite here for plaintiff concedes he did not have a trade secret (T 3226-3228).

12. Moreover, even if a "monopoly in fact" theory was nevertheless a viable one, defendant removed the patent number from its wrench in 1971 (R. 59, pp. 2-3, C., Count II, para.'s 23-26). The jury award of money damages as profits through 1976 was, even under the Court of Appeals theory, erroneous for this reason as well.

Since the decision below conflicts with the decisions of this Court and other circuits, defendant asks this Court to issue a writ of certiorari and reverse the decision below.

II. Plaintiff's Patent Is Invalid as a Matter of Law.

Defendant offered in evidence three charts reproduced here for the Court's convenience. These charts show the single claim in plaintiff's patent in juxtaposition to the structure shown in his patent and those of the prior art Carpenter and Gonzalez patents, respectively (DX 35, 36, 37).¹³ The structural elements on the respective charts were colored by defendant's expert witness to show corresponding elements in corresponding colors (T. 2475). A simple comparison of plaintiff's claim with the structures of the Gonzalez and Carpenter patents reveals that each and every element of plaintiff's claim is present in these prior patents. Plaintiff's patent contains a single claim as follows:

"In a socket wrench
 a handle (green)¹⁴
 a head thereon (green)
 a driving stud in the head (brown)
 said stud extending from a side surface of the head
 a longitudinal passage in said stud
 a longitudinally movable pin in said passage (blue)
 an aperture in the stud communicating with the passage
 a detent element mounted in the aperture (red)
 the edges of the aperture holding the detent to the stud
 the detent being normally engaged with a surface of said pin

13. The chart depicting the Carpenter structure and all testimony thereon were excluded from evidence and defendant submitted an offer of proof thereon (T. 2399-2400, 2409-2413, 2416, 2425-2429, 2594, 2600).

14. This color and others referred to below refer to the colors on the charts.

said detent element being held thereby in outwardly located position in order to engage and hold a socket on the stud,

a recess in said pin for selective alignment with said detent element so that the latter is received therein releasing the socket (white)

a spring normally urging the pin to a position where it holds the detent outwardly (black)

said pin extending through the head in a direction opposite the stud and in position to be engaged manually by the operator of the wrench holding the handle to be depressed against the action of the spring to move the pin from detent element holding position to a position wherein said recess receives the detent element (blue)"

Simply, the essential elements of plaintiff's claim are a stud with an opening (brown) carried on a handle (green), a slidable pin in the stud (blue), the pin having a recess to receive a ball detent (red), so as to release the socket when the recess is aligned with the ball, and a spring (black) that holds the ball in position to secure a socket on the stud. As may be seen from the charts the combination of each of these elements is found in Carpenter¹⁵ and Gonzalez, the parts being similarly colored on the charts.

It is well settled that a patent is invalid for anticipation where there are minor differences between the patent claim and prior art. *A fortiori*, a patent is anticipated where, as here, *no* differences between the patent claim and prior art exist and each and every element of the patent claim is disclosed by a prior art patent. As the Court below ruled in *Amphenol Corp. v. General Time Corp.*, 397 F. 2d 431 (7 Cir. 1968):

[A] device to be patentable must possess novelty and invention. Novelty does not exist if the device has been anticipated by a substantially identical prior device where the elements do substantially the same work in substantially the same way. 397 F. 2d at 437.

15. Defendant would note that the Carpenter structure adds a refinement of a leaf spring, the purpose of which is to prevent the detent from sticking when it enters the recess.

Sept. 28, 1965

P. M. ROBERTS

3,208,318

QUICK RELEASE FOR SOCKET WRENCHES

Filed April 24, 1964

March 9, 1965

V. E. GONZALEZ

3,172,675

WALL SOCKET ATTACHMENT FOR IMPACT TOOL

Filed Feb. 19, 1963

2 Sheets-Sheet 2

In a socket wrench

a handle 102

a head thereon 104

a driving stud in the head 14'

said stud extending from a side surface of the head

a longitudinal passage in said stud

a longitudinally movable pin in said passage 36a

an aperture in the stud communicating with the passage 24a

a detent element mounted in the aperture 28a

the edges of the aperture holding the detent to the stud

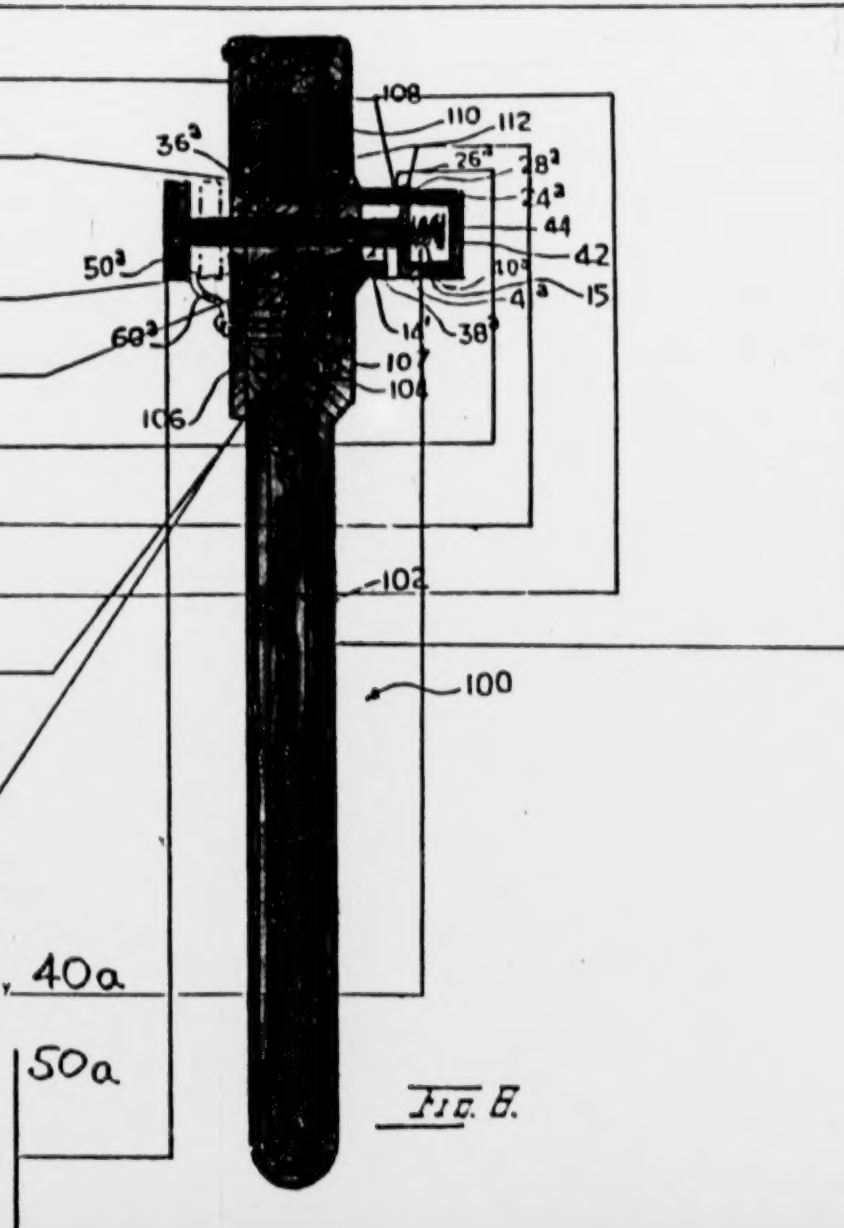
the detent being normally engaged with a surface of said pin

said detent element being held thereby in outwardly located position in order to engage and hold a socket on the stud

a recess in said pin for selective alignment with said detent element so that the latter is received therein releasing the socket

a spring normally urging the pin to a position where it holds the detent outwardly 40a

said pin extending through the head in a direction opposite the stud and in position to be engaged manually by the operator of the wrench holding the handle to be depressed against the action of the spring to move the pin from detent element holding position to a position wherein said recess receives the



Sept. 28, 1965

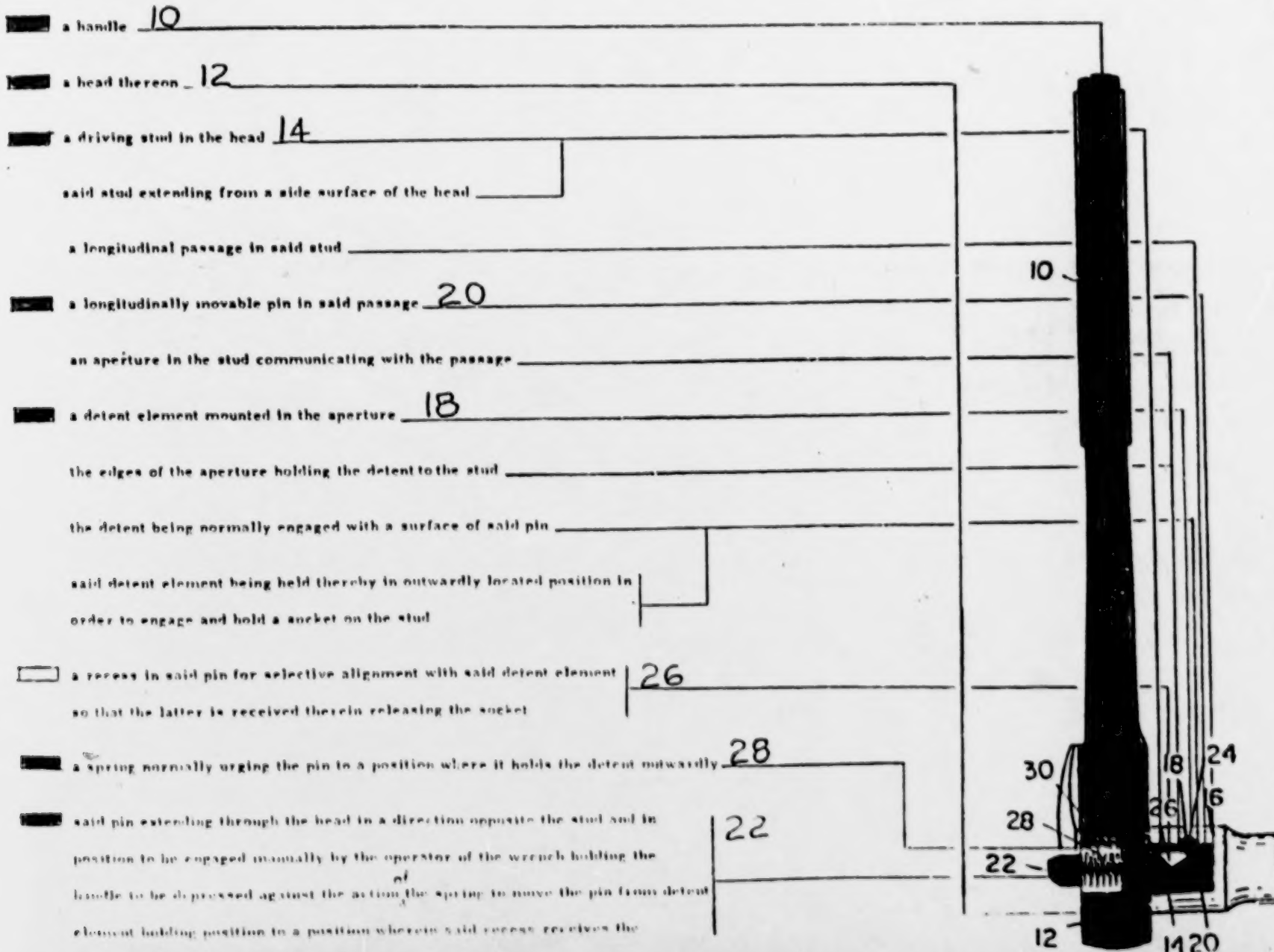
P. M. NOBLETS

3,208,318

QUICK RELEASE TEE SOCKET WRENCHES

Filed April 24, 1964

In a socket wrench



Sept. 28, 1965

P. M. ROBERTS
QUICK RELEASE FOR SOCKET WRENCHES
Filed Apr. 24, 1964

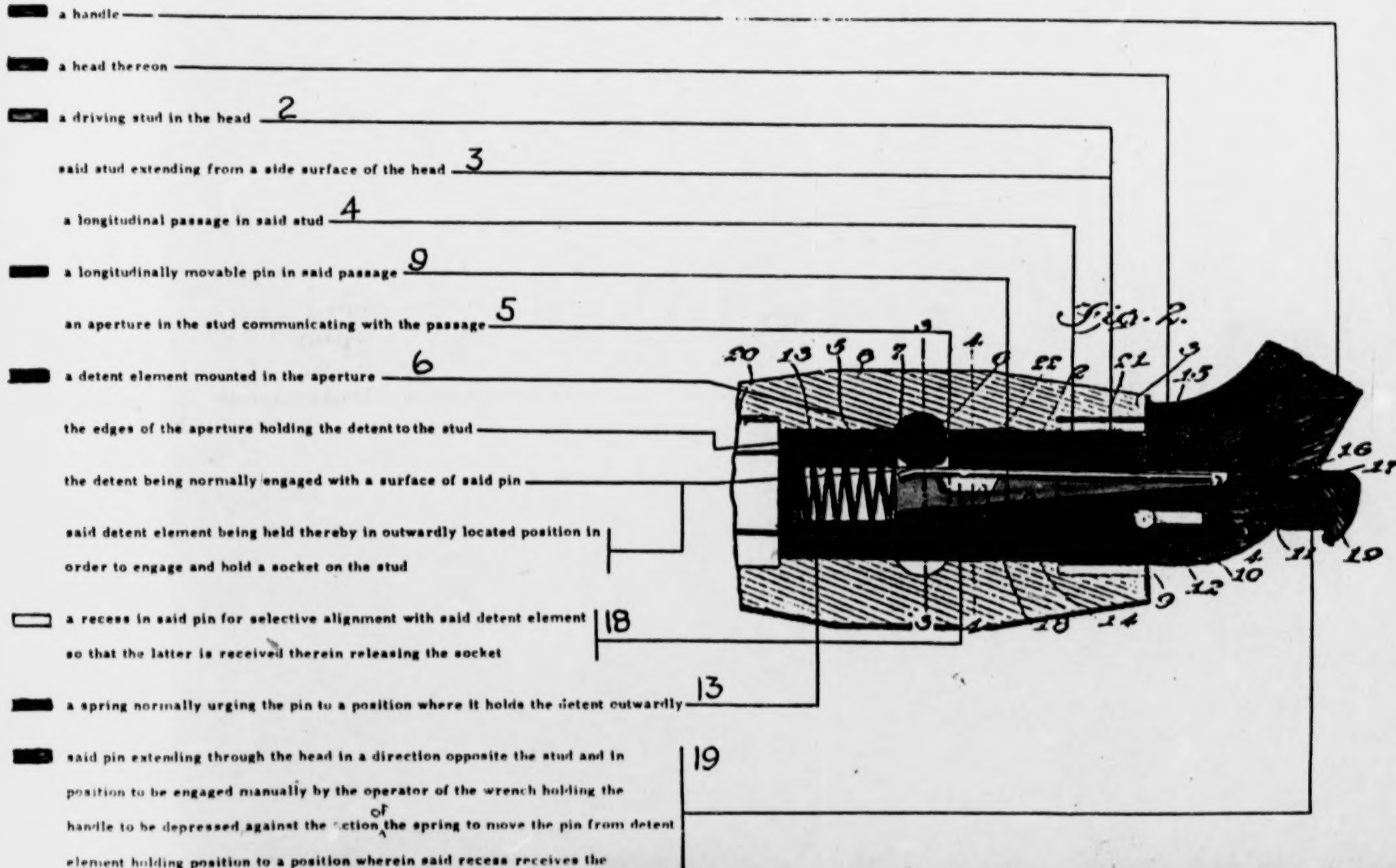
3,208,318

Feb. 28, 1928

E. R. CARPENTER
ATTORNEY
Filed Jan. 27, 1927

1,669,889

In a socket wrench



In *Shelco, Inc. v. Dow Chemical Co.*, 466 F. 2d 613 (7 Cir. 1972), *cert. denied*, 409 U. S. 876 (1972), the Seventh Circuit recognized that anticipation applies even if, unlike the case at bar, differences do exist between the patent claim and prior art when it ruled:

[W]hen the only features distinguishing the purported invention from a prior art product are insubstantial, the earlier may properly be said to anticipate the later product. . . . [I]t is sufficient for anticipation 'if the general aspects are the same and the difference in minor matters is only such as would suggest itself to one of ordinary skill in the art.' 446 F.2d at 614, 615 (citations omitted, emphasis added).

Similarly, in *Deep Welding, Inc. v. Sciaky Bros., Inc.*, 417 F. 2d 1227 (7 Cir. 1969), *cert. denied*, 397 U. S. 1037 (1970), the Court below reversed a trial court judgment and invalidated a patent because of anticipation, although differences existed between the challenged patent and prior art. The Court ruled:

*[E]ven though the disclosures of the prior art may fall short of "complete anticipation," anticipation may be found where achieving complete anticipation only required that one of ordinary skill in the art merely exercised that skill to complete the work. . . . [W]hile it is preferable that 'all of the elements of the patented device or their equivalents * * * be found in a single prior device,' it is sufficient for anticipation 'if the general aspects are the same and the differences in minor matters is only such as would suggest itself to one of ordinary skill in the art' . . .* 417 F.2d at 1234 (citations omitted, emphasis added).

See also, *E. T. Industries, Inc. v. Whitlaker Corp.*, 183 USPQ 690 (N. D. Ill. 1974), *rev'd on other grounds*, 523 F. 2d 636 (7 Cir. 1975); *Catalano v. Kawneer Co., Inc.*, 185 USPQ 456 (N. D. Ill. 1975); *Ropat Corp. v. West Bend Co.*, 382 F. Supp. 1030 (N. D. Ill. 1974); *Marasco v. Compro Shoe Machinery Corp.*, 325 F. 2d 695 (1 Cir. 1963), *cert. denied*, 377 U. S. 924 (1964); *Monroe Auto Equipment Co. v. Heckethorn Mfg. & Supply Co.*, 332 F. 2d 406 (6 Cir. 1964), *cert. denied*, 379 U. S. 888 (1964).

Thus, even if, contrary to the fact, it could be said that there are minor differences between plaintiff's claim and the disclosures of Carpenter or Gonzales, such differences could not alter the fact that plaintiff's patent is anticipated and invalidated by these earlier patents. Each and every element of plaintiff's claim is found both in Gonzales and Carpenter, thus clearly rendering plaintiff's patent invalid.

And even if, contrary to the fact, it could somehow be said that plaintiff's patent represented an improvement over the prior art, the improvement would be obvious to one ordinarily skilled in the art. Thus plaintiff's patent would still be invalid under Section 103 of the Patent Act (35 U. S. C. § 103), *Popeil Brothers, Inc. v. Schick Electric, Inc.*, 494 F. 2d 162 (7 Cir. 1974), *Pederson v. Stewart-Warner Corp.*, 536 F. 2d 1179 (7 Cir. 1976), *cert. denied*, 429 U. S. 985 (1976), *Sakraida v. Ag Pro Inc.*, 425 U. S. 273, 47 L. Ed. 2d 784 (1976), *Gettleman Mfg. Inc. v. Lawn 'N' Sport Power Mower Sales & Service, Inc.*, 517 F. 2d 1194 (7 Cir. 1975); *Panduit Corp. v. Burndy Corp.*, 517 F. 2d 535 (7 Cir. 1975), *cert. denied*, 423 U. S. 987 (1975); *Skil Corp. v. Lucerne Products, Inc.*, 503 F. 2d 745 (7 Cir. 1974), *cert. denied*, 420 U. S. 974 (1975).

The trial court and the Seventh Circuit improperly refused to pass upon the question of patent invalidity. Under those circumstances, it is well settled that this Court may do so. That is precisely what the Court of Appeals did in *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 99 F. 2d 9 (1 Cir. 1938), *cert. denied*, 305 U. S. 659 (1939), cited and discussed at length at pages 12-14 above. As stated in *NCR Corp. v. Eastman Kodak Co.*, 191 USPQ 194 (N. D. Ill. 1976):

The patent in suit and the prior art relied upon by defendant are not complex and are readily understood. They involve only rudimentary mechanical principles. Thus, the patents can "speak for themselves", and, absent any dispute over the teaching of these patents, this court can make the necessary findings with respect to the state of the prior art and differences between that art and the patent in suit

without any further presentation of evidence. 191 USPQ at 199 (Emphasis added).

Also, in *Maclaren v. B-I-W Group, Inc.*, 535 F. 2d 1367 (2 Cir. 1976), *cert. denied*, 429 U. S. 1001 (1977), the Court held:

... where the material facts are undisputed *or the findings are based on documentary evidence* which we are as competent to appraise as the District Court, we have not hesitated to reject a determination of validity, either because the significance of the facts had not yet been fully perceived by the District Court or there has been an error in the application of legal principles. 535 F.2d at 1371 (citations omitted, emphasis added).

See also, *Graham v. John Deere Co.*, 383 U. S. 1, 15 L. Ed. 2d 545 (1966); *Great A & P Tea Co. v. Supermarket Equipment Co.*, 340 U. S. 147, 95 L. Ed. 162 (1950); 2 *Walker on Patents*, § 105 (Deller's 2d Ed. 1964),¹⁶ to the effect that patent invalidity is a question of law which can be decided by this Court.

Clearly, the trial court and the Court of Appeals should have but refused to pass upon the issue of patent invalidity. These courts completely ignored that patent invalidity was a paramount issue in the case as a matter of law and fact. Had these courts ruled on this issue, they could only have concluded that plaintiff's patent was invalid and could not be the basis for a verdict against defendant under any theory.¹⁷ For this reason, too, this Court should issue a writ of certiorari.

16. Although defendant perceives no fact issue on the question of invalidity, when the trial court refused to rule on this issue as a matter of law, it requested that the issue be submitted to the jury, but the trial court refused this request also (T. 3101-3104). If any factual issue exists, this ruling, too, was error.

17. Although plaintiff's patent was presumed valid, this presumption is rebutted and does not apply where, as here, there is evidence of relevant prior art not cited by the Patent Office. *Simmons Co. v. Hill-Rom Co.*, 352 F. 2d 886 (7 Cir. 1965); *AR, Inc. v. Electro-*

(Footnote continued on next page.)

III. The Decision of the Court of Appeals Below Contravenes the Law of Illinois.

If plaintiff's patent is invalid, his recovery would be barred by state as well as federal law. Thus, certiorari should be granted for the further and equally compelling reason that the decision below conflicts with the law of Illinois. Under the law, an invalid patent is valueless. As plaintiff himself conceded below, a charge of fraud without damage is not actionable in Illinois (PAB 56). In the absence of a valid patent, that indeed is the case at bar.

In *Finn v. Monk*, 403 Ill. 167, 85 N. E. 2d 701 (1949), the Supreme Court of Illinois reversed a lower court judgment and ruled:

The plaintiffs have not shown how they were damaged. *This is an absolute essential for recovery for fraudulent representations.* It is the law of Illinois as well as that of practically every State. 403 Ill. at 176 (Emphasis added).

Similarly, in *Yates v. Cummings*, 4 Ill. App. 3d 899, 282 N. E. 2d 281 (1972), the Appellate Court of Illinois affirmed a lower court decision that plaintiff had no cause of action for fraud since he was not damaged:

Proof of actual injury resulting from the representation is a necessary element of the cause of action. We do not find that sufficient evidence was introduced to show that appellants sustained injury. 4 Ill.App.3d at 903 (citations omitted, emphasis added).

(Footnote continued from preceding page.)

Voice, Inc., 311 F. 2d 508 (7 Cir. 1962); *Senco Products, Inc. v. Fastener Corp.*, 269 F. 2d 33 (7 Cir. 1959), *cert. denied*, 361 U. S. 932 (1960); *Hobbs v. Wisconsin Power & Light Co.*, 250 F. 2d 100 (7 Cir. 1957), *cert. denied*, 356 U. S. 932 (1958); *Chicago Rawhide Mfg. Co. v. Crane Packing Co.*, 523 F. 2d 452 (7 Cir. 1975), *cert. denied*, 423 U. S. 1091 (1976); *Henry Mfg. Co., Inc. v. Commercial Filters Corp.*, 489 F. 2d 1008 (7 Cir. 1972); *Deep Welding, Inc. v. Sciaky Bros., Inc.*, 417 F. 2d 1227 (7 Cir. 1969), *cert. denied*, 397 U. S. 1037 (1970); *NCR Corp. v. Eastman Kodak Co.*, 191 USPQ 194 (ND Ill. 1976).

Also, in *Struve v. Tatge*, 285 Ill. 103, 120 N. E. 549 (1918), the Supreme Court rejected a cause of action for fraud on this basis:

The general rule is that to constitute actionable fraud it must be shown, among other things, that the person who is alleging fraud has thereby suffered an injury, and this, as well as all the other essentials of fraud, must be proved to a reasonable degree of certainty. 285 Ill. at 109.

The Seventh Circuit agrees. Thus, in *Good Brothers, Inc. v. Banowitz*, 269 F. 2d 197 (7 Cir. 1959), plaintiff requested rescission of an agreement because of fraud. The Court reversed a lower court judgment when it ruled:

Under Illinois law, in order to be actionable either in law or a ground for rescission in equity, fraud and injury must concur. *Fraud without damage is not sufficient. Id.* at 203 (citations omitted, emphasis added).

See also, *Jones v. Foster*, 175 Ill. 459, 51 N. E. 862 (1898); *Meenehan v. Rosenfield*, 236 Ill. App. 4 (1925); *Connelly v. Bartlett*, 286 Mass. 311, 190 N. E. 799 (1934). It is clear from the foregoing decisions that the issue of patent invalidity is an essential one to this case.

IV. Defendant Was Denied a Fair Trial.

At trial, plaintiff proffered and the trial court received evidence of prior art. The trial court also permitted plaintiff to argue to the jury that his patent was valid (T 195-198, 302-303, 378-380, 736-738, 1441-1443, 1448, 1463, 1513-1516, 1517-1518, 1529, 2302, 3300, 3312-3314, 3316, 3322, 3330, 3331, 3337-3341). But defendant was denied the opportunity to oppose this evidence and argument with the crucial Carpenter patent and other relevant prior art (T 2409-2413, 2416, 2425-2429, 2460-2470, 2594, 2600-2606, 2615, 2747-2749). However, this prior art offered by defendant and rejected by the trial court did not only go to the issue of the invalidity of plaintiff's

patent, as the Court of Appeals erroneously perceived.¹⁸ Contrary to the belief of the Seventh Circuit, the improperly excluded evidence of prior art was also offered by defendant on and relevant to the value of plaintiff's patent (T 2397-2401, 2424-2425, 2600-2606, 2747-2749). A jury award, if any, must necessarily relate to the value of the idea disclosed by the patent. Indeed, even the trial court recognized this basic concept at one point. Thus, before it excluded defendant's proffered evidence of prior art, the trial court initially ruled that:

I have no doubt in my mind that notwithstanding the vehement argument on behalf of the plaintiff to the contrary, the defense has a right to show that what it purchased was something other than what it turned out and that it had anticipated this possibility and had so indicated to the plaintiff's representative. I have no doubt about that. (T 778) (Emphasis added).

While the trial court later ignored this basic point, plaintiff continued to recognize the proposition. Thus, he argued below that the value of his patent was the very nexus of his lawsuit (PB 31, 32).¹⁹

To exclude evidence proffered by defendant regarding the value of the patent, as the trial court did, obviously contravenes the law and denied the defendant a fair trial. This error was compounded when plaintiff was nevertheless permitted to proffer his evidence regarding prior art (T 195-198, 302-303, 378-380, 736-738, 1441-1443, 1448, 1463, 1513-1516, 1517-1518, 1521, 1529, 2302) and argue to the jury that his patent was valid (T 3300, 3312-3314, 3316, 3322, 3330, 3331, 3337-3341). For these reasons, too, a writ of certiorari is required here.

18. Defendant refers to the Court of Appeals Opinion, at page A10 of the Appendix.

19. Indeed, the trial court instructed the jury that its verdict should be based upon the value of the patent or idea (T. 3469).

CONCLUSION.

For each of the reasons set forth above, petitioner respectfully prays that this Court issue a writ of certiorari and thereafter rule that the judgments of the United States Court of Appeals for the Seventh Circuit and of the United States District Court for the Northern District of Illinois must be reversed, and that judgment be entered for defendant. Alternatively, upon reversal of these judgments, this matter should be remanded to the District Court for a new trial.

Respectfully submitted,

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APPENDIX.

IN THE UNITED STATES COURT OF APPEALS
for the Seventh Circuit

Nos. 77-1354 and 77-1499

PETER M. ROBERTS,

*Plaintiff-Appellant,
Cross-Appellee,*

vs.

SEARS, ROEBUCK AND COMPANY, a corporation,
*Defendant-Appellee,
Cross-Appellant.*

Appeal and Cross-Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.

No. 69 C 2573—George N. Leighton, *Judge.*

Argued February 14, 1978—Decided April 3, 1978

Before CASTLE, *Senior Circuit Judge*, SPRECHER and BAUER,
Circuit Judges.

SPRECHER, *Circuit Judge.* The major issues in this case are whether the district court properly declined to decide the validity of plaintiff's patent in a suit for fraud, breach of a confidential relationship and negligent misrepresentation in defendant's procurement of an assignment of plaintiff's patent rights

and whether the district court properly concluded that plaintiff had elected his legal remedies and, therefore, was barred from seeking his equitable remedies of rescission and restitution.

I

This case involves the efforts of one of this nation's largest retail companies, Sears, Roebuck & Co. (Sears), to acquire through deceit the monetary benefits of an invention of a new type of socket wrench created by one of its sales clerks during his off-duty hours. That sales clerk, Peter M. Roberts (Plaintiff), initiated the unfortunate events that led to this appeal in 1963, when at the age of 18 he began work on a ratchet or socket wrench that would permit the easy removal of the sockets from the wrench. He, in fact, designed and constructed a prototype tool with a quick-release feature in it that succeeded in permitting its user to change sockets with one hand. Based on that prototype, plaintiff filed an application for a United States patent. In addition, since he was in the employ of Sears, a company that sold over a million wrenches per year, and since he had only a high school education and no business experience, he decided to show his invention to the manager of the Sears store in Gardner, Massachusetts where he worked. Plaintiff was persuaded to submit formally his invention as a suggestion to Sears. In May 1964, the prototype, along with a completed suggestion form, was sent to Sears' main office in Chicago, Illinois. Plaintiff, thereafter, left Sears' employ when his parents moved to Tennessee.

It was from this point on that Sears' conduct became the basis for the jury's determination that Sears appropriated the value of the plaintiff's invention by fraudulent means. Plaintiff's evidence proved that Sears took steps to ascertain the utility of the invention and that based on the information it acquired, Sears became convinced that the invention was in fact valuable. Sears had two sets of tests run on plaintiff's wrench by its

custom manufacturer of wrenches, Moore Drop Forging Co. (Moore). The first test was conducted in July 1964, and it proved that the wrench operated normally and that the quick-release feature did not substantially weaken the structure of the wrench. The second test, conducted in May 1965, showed that actual mechanics liked the quick-release feature. Moore reported the results of these tests to Sears.

Based presumably on these tests, and the expert opinion of its senior tool buyer, Arthur Griesbaum, Sears in March 1965, had Moore design a fine-tooth wrench with the quick-release feature built into it. In addition, at about the same time, Sears put in motion plans to incorporate the quick-release feature into then-existing wrench models that constituted 74.27 percent of all the wrenches Sears sold. Thus, by early 1965, it was clear to Sears that this invention was very useful and probably would be quite profitable.

Sears also received reports from Moore regarding the manufacturing cost of plaintiff's quick-release feature. In the initial prototype built by Moore, the cost was 44 cents per unit. By June of 1965, Sears had received a report indicating that the cost could be reduced to 20 cents per unit. Thus, early in 1965, Sears learned that the feature was relatively inexpensive to manufacture.

Sears also took pains to ascertain the patentability of the quick-release feature. In April 1965, it received outside patent counsel's advice that there was "some basis for limited patentability" (defendant's Exhibit 9). It had previously learned in February 1965 from plaintiff's lawyer, Charles Fay, that he believed the invention was patentable based on a limited search. In addition, Sears was informed in early May 1965, by plaintiff's lawyer that a patent had been issued to plaintiff.¹

1. We might note here that Mr. Fay contacted Sears before informing plaintiff that a patent had issued. In addition, it was shown that Sears had contacted Mr. Fay during the period of these negotiations about doing some work for it and that he, in fact, did perform a couple of routine matters for Sears, thus raising some doubt about the independence of his advice to plaintiff.

With all of this information either available or soon to be available, Sears contacted plaintiff in January 1965, and began negotiations regarding the purchase of rights to use plaintiff's invention. During these negotiations, conducted with plaintiff's attorney, Sears' lawyer, Leonard Schram, made various representations to plaintiff that serve as the essential basis for plaintiff's complaint. In April 1965, in a letter seeking merely a license, Schram first told plaintiff that the invention was not new and that the claims in any patent that would be permitted would be "quite limited" (plaintiff's Exhibit 34). Second, Schram told plaintiff that the cost of the quick-release feature would be 40-50 cents. Third, he told plaintiff the feature would sell only to the extent it would be promoted and thus \$10,000 was all that the feature was worth. Finally, and perhaps most ironically, Schram wrote to plaintiff that "[o]nce we have paid off the royalty expense, then we would probably take the amount previously allocated to said expense and use it for promotional expenses *if we desire to maintain sales on the item.*" (Emphasis added.)

Based on this letter, plaintiff entered into the agreement on July 29, 1965, which provided for a two cent royalty per unit up to a maximum of \$10,000 to be paid in return for a complete *assignment* of all of plaintiff's rights. In fact, for no extra charge, plaintiff's attorney gave Sears all of plaintiff's foreign patent rights. A provision was included in the contract regarding what would happen if Sears failed to sell 50,000 wrenches in a given year, thus reinforcing the impression that the wrenches might not sell very well. Also, a provision was inserted dealing with the contingency that a patent might not be issued, notwithstanding that Sears already knew, and plaintiff did not, that the patent had been granted.

By July, Sears knew that it planned to sell several hundred thousand wrenches with a cost per item increase of only 20 cents, that a patent had issued and that this product in all likelihood would have tremendous appeal with mechanics. Nonethe-

less, it entered into this agreement both having failed to disclose vital information about the product's appeal and structural utility and having made representations to plaintiff that were either false at the time they were made or became false without disclosure prior to the time of the signing of the contract.

Within days after the signing of the contract, Sears was manufacturing 44,000 of plaintiff's wrenches per week—all with plaintiff's patent number prominently stamped on them—and within three months, Sears was marketing them as a tremendous breakthrough. Within *nine months*, Sears had sold over 500,000 wrenches and paid plaintiff his maximum royalty thereby acquiring all of plaintiff's rights. Between 1965 and 1975, Sears sold in excess of 19 million wrenches, many at a premium of one to two dollars profit because no competition was able to market a comparable product for several years. To say the least, plaintiff's invention has been a commercial success.

Plaintiff, a Tennessee resident, filed suit against Sears, an Illinois Corporation, in federal district court in December 1969, based on diversity jurisdiction, seeking alternatively return of the patent and restitution or damages for fraud, breach of a confidential relationship and negligent misrepresentation. A jury trial was held from December 20, 1976, until January 18, 1977. During the trial, plaintiff basically proved the facts as presented above. Sears argued that it did not misrepresent any facts to plaintiff, that he had a lawyer and thus there was no confidential relationship and that the success of the wrenches was a function of advertising and the unforeseeable boom in do-it-yourself repairs, and thus Sears did not misrepresent the salability of plaintiff's wrenches. The jury was instructed on each of the three counts in plaintiff's complaint and told that it could award plaintiff profits² for Counts I and II and could

2. The court instructed the jury on damages for Counts I and II, fraud and breach of confidential relationship, as follows:

The award of money damages you make may equal the net profits which you find the defendant gained as a result of its

(Footnote continued on next page.)

consider a reasonable royalty as a remedy for Count III. The jury apparently believed the plaintiff's evidence because it found Sears guilty on all three counts and entered judgment for one million dollars on each count, but the award was not cumulative.

Both parties filed post-trial motions. Sears filed for judgment NOV and plaintiff sought rescission of the contract and restitution. The district court denied both motions holding as to Sears' motion that the jury verdict was in accordance with the evidence and that the damages award was reasonable and holding as to plaintiff's motion that when he permitted the case to go to the jury he had elected his legal remedy and could not later also seek his equitable relief. Plaintiff appealed seeking equitable relief and Sears cross-appealed the one million dollar judgment against it. Since Sears' cross-appeal raises basic issues of liability, we will deal with it first. We will subsequently consider plaintiff's appeal on the issues of the appropriate remedy.

II.

Sears' primary argument in its cross-appeal is that the district court erred in not determining conclusively the validity of plaintiff's patent as a precondition to trying plaintiff's claims for fraud, breach of a confidential relationship and misrepresentation. Relying on *Lear, Inc. v. Adkins*, 395 U. S. 653 (1969), Sears contends that if the district court had concluded that the patent was invalid, then plaintiff could not have been injured by any fraud Sears may have committed since it paid \$10,000 for a "worthless" invention.

(Footnote continued from preceding page.)

merchandising of wrenches incorporating Plaintiff's quick release invention and idea, minus any expenditures which you find the defendant has proved it incurred which it would have incurred had it not merchandised such wrenches incorporating plaintiff's quick release invention and idea from the time of the contract in question to the present.

(Tr. at 3469).

Sears' analysis, however, misconceives the Supreme Court's holding in *Lear*. There the Court held that a patent licensee was not estopped to contest the validity of the licensor's patent, and, in fact, was not required to pay the contractually-provided royalties for the license on the invalid patent during the pendency of the litigation. Contrary to Sears' implication, the *Lear* Court did not hold that the potentially invalid patent was worthless and thus the royalties offered in exchange for the right to use that patent would be unjustified. Instead, the Court explicitly recognized that there was significant economic value in the rights to an unchallenged patent. 395 U. S. at 669. In this regard the Court stated that "the existence of an unchallenged patent may deter others from attempting to compete with the licensee," thereby creating a monopoly in fact if not in law. *Id.*³

Other courts have also acknowledged that significant economic value attaches to the rights to an uncontested patent. The Supreme Court recognized this recently in an opinion by Chief Justice Burger: "[E]ven though a discovery may not be patentable, that does not 'destroy the value of the discovery . . .'" *Kewanee Oil Co. v. Bicron Corp.*, 416 U. S. 470, 482 (1974). Similarly, this court has held that "[w]hile there are paradoxical aspects of allowing recovery to arise from illegal interference with the sale of something which ultimately was proven to have no sales value, it cannot be said that there was no such value during the period of the presumptive validity of the patent." *Moraine Products v. ICI America, Inc.*, 538 F. 2d 134, 149 (7th Cir. 1976).⁴

3. This valuable benefit was available even in the case of a non-exclusive license because the royalty charged to the licensee "serves as a barrier to entry." 395 U. S. 669 n.16.

4. The court subsequently defined more specifically the nature of the economic value created by the uncontested patent during the period of its presumptive validity:

While Moraine was the holder of a presumptively valid patent, it could legally entertain the expectation, unless it had in some manner deprived itself thereof, of receiving royalties from licensing arrangements which in final analysis are agreements in

(Footnote continued on next page.)

The facts of this case, by themselves, make abundantly clear both that Sears believed that the uncontested patent had significant economic value as a deterrent to competitors and that the patent, in fact, did serve to deter competitors. Sears had the patent number stamped on all of its wrenches with plaintiff's quick-release feature, which presumably was done for the purpose of scaring off competitors. Also, Sears' competitors did not enter this lucrative market for several years after it became clear that this product had genuine sales appeal, which can only be explained by the existence of the patent.

It is at least somewhat disingenuous for Sears to argue before this court that plaintiff's patent was valueless when it made every effort in its marketing to exploit the economic value of the uncontested patent, received the benefits of a factual monopoly for several years because of that uncontested patent and to this day has refused to return the patent rights to plaintiff in return for the \$10,000 originally paid to acquire these "valueless" rights. We, therefore, have little difficulty finding that Sears' deception caused plaintiff to be injured in fact.

The issue remains whether the public interest, recognized in *Lear*, in having patent validity challenged is of such significance that we should extend *Lear* to cover this case. The *Lear* Court held that a licensee should be permitted to contest the validity of a licensor's patent because "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery." 395 U. S. at 670. Thus, the Court feared that if licensees "are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." *Id.*⁵

(Footnote continued from preceding page.)

which the licensee is purchasing the right to be free from infringement litigation, which Moraine did have to sell during the period of validity.

538 F. 2d at 149.

5. The policy against deterring licensees from attacking the validity of the licensor's patent also justified not requiring the licensee

(Footnote continued on next page.)

We believe that the reasoning in *Lear* does not extend to this case for two reasons. First, we deal here with a complete assignment of plaintiff's patent rights to Sears. See generally *Heltra, Inc. v. Richen-Gemco, Inc.*, 395 F. Supp. 346, 352 (D. S. C. 1975), *rev'd on other grounds*, 540 F. 2d 1235 (4th Cir. 1976); Arnold & Goldstein, *Life Under Lear*, 48 TEXAS L. REV. 1235, 1244 (1970). Thus, the primary evil that the Court in *Lear* sought to end—that the public might have to pay tribute to a "would-be monopolist"—is completely irrelevant to this case. Plaintiff has no legal basis for exacting any "tribute" until the patent rights are returned to him. At that point in time, the patent's validity can be tested either in an infringement suit or after plaintiff enters into a licensing agreement. The public's interest would not be injured by our decision to bar Sears from contesting this patent at this time.

Second, and perhaps even more fundamentally, the Court's analysis in *Lear* initiated with an assessment of "the spirit of contract law, which seeks to balance the claims of promisor and promisee in accord with the requirements of *good faith*." 395 U. S. at 670 (emphasis added). Only after the Court satisfied itself that the equities were balanced on each side did it proceed to a consideration of the needs of patent law and the public interest. Sears' actions in this matter have violated completely the basic assumption in *Lear* that there was good faith in the dealings between the parties. There is no balance of equities between Sears and plaintiff in their contractual relations. For

(Footnote continued from preceding page.)

to pay royalties under the license agreement during the litigation. The Court reasoned:

Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. . . . [T]he cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts.

395 U. S. at 673.

this court to employ the public interest in patent law to sanction Sears' conduct is unjustifiable. Certainly nothing in patent law requires this court to permit fraud to go unremedied. Cf. *Kewanee Oil Co. v. Bicron Corp.*, 416 U. S. 470, 487 (1974) (nothing in patent law discourages states from preventing industrial espionage). We, therefore, hold that the district court properly concluded that *Lear, Inc. v. Adkins*, is no bar to plaintiff's recovery.

III.

Having determined that the district court properly declined to decide the validity of the plaintiff's patent, we can readily dispose of Sears' second contention in its cross-appeal. Sears argues that the district court erred in not permitting the introduction of certain evidence dealing with the prior art surrounding plaintiff's invention. Sears, however, attempted to introduce all of the prior art evidence at issue (defendant's Exhibits 25, 26, 29, 33, 34, 39, 40, 41, 42 and 43) for the purpose of proving that the patent was invalid. Since that contention was irrelevant to the case, it seems, *a fortiori*, that the materials introduced to prove it must also be deemed irrelevant to this case.

Sears, however, argues that the district court recognized that patent validity was a relevant issue. By citing materials out of context, Sears has severely mischaracterized the district court's analysis. During the trial, the district court properly recognized that some evidence of prior art was relevant for the issue of Sears' intent. Prior art was relevant to the limited extent that if Sears could prove it knew about the prior art at the time it was negotiating with plaintiff then the jury might conclude that Sears had not intentionally deceived plaintiff about the novelty and value of his invention.

The best example of this reasoning by the district court was with regard to the Carpenter patent (defendant's Exhibit 29). In considering its relevance the court asked when Sears had become aware of the patent. Counsel for Sears stated that the

Carpenter patent was not discovered until 1971, after the law suit was initiated (Tr. at 2409). Since it was clear that the Carpenter patent had not entered into Sears' assessment of the value of plaintiff's invention when it made its representations to plaintiff, the district court properly concluded the patent was irrelevant and refused to admit it into evidence (Tr. at 2425). We have examined the record concerning the other prior art evidence that was not admitted and about which Sears complains, and we conclude that the district court properly applied its rule of limited relevance and thereby correctly excluded all of it.

IV.

Sears' final argument in its cross-appeal is that plaintiff failed to prove the existence of a confidential relationship between himself and Sears. In assessing that argument, we recognize at the outset that there are no hard and fast rules for determining whether a confidential relationship exists. See G. BOGERT, *THE LAW OF TRUSTS AND TRUSTEES* § 482 (2d ed. 1960). The trier of fact must examine all of the circumstances surrounding the relationship between the parties and determine whether "one person reposes trust and confidence in another who thereby gains a resulting influence and superiority over the first." *Kester v. Crilly*, 405 Ill. 425, 91 N. E. 2d 419, 423 (1950).

Various factors have been recognized judicially as being of particular relevance to that inquiry. Among them are disparity of age, education and business experience between the parties. *Melish v. Vogel*, 35 Ill. App. 3d 125, 343 N. E. 2d 17, 26 (1975). Additional factors are the existence of an employment relationship and the exchange of confidential information from one party to the other. See *Yamins v. Zeitz*, 322 Mass. 268, 76 N. E. 2d 769, 772 (1948). All five of those factors are present in this case. In addition, one of Sears' witnesses admitted that the company expected plaintiff to "believe" and to "rely" on various representations that Sears made to him (Tr. at 1981). Obviously, this question is best left to the trier

of fact, and this court under any circumstances would hesitate to disturb the jury's findings. That hesitation is especially strong here where so many factors suggest that a confidential relationship in fact existed.

Sears argues, however, that there are two factors involved here that eliminate any possible confidential relationship. They are that plaintiff never proved that Sears had knowledge of the confidential relationship upon which plaintiff was relying and that plaintiff retained counsel to guide him, and therefore, did not rely on Sears. We find neither factor sufficient to justify overturning the jury's verdict on this issue.

Sears cites several cases that emphasize that a confidential relationship cannot be thrust upon an unknowing party. *See Broomfield v. Kosow*, 349 Mass. 749, 212 N. E. 2d 556 (1965); *Yamins v. Zeitz*, *supra*; *Comstock v. Livingston*, 210 Mass. 581, 97 N. E. 106 (1912). That proposition, however, does not lead to the conclusion that a plaintiff must demonstrate by direct evidence that the defendant actually was aware of the confidential relationship. All that must be proved is that the parties engaged in activities under circumstances that created a confidential relationship and that defendant breached that relationship.

In the cases cited by Sears, all of the circumstances surrounding the transactions that were being attacked suggested an arms-length arrangement, and thus the plaintiffs in those cases attempted to thrust a confidential relationship on the unknowing defendants after the fact. Here, Sears' knowledge is circumstantially proved by all of the facts surrounding its dealings with plaintiff. In addition, as suggested above, there was direct testimony to the effect that Sears expected plaintiff to rely on its representations.⁶

6. Sears also argues that the district court failed to instruct the jury on the issue of Sears' knowledge of the confidential relationship. In view of our holding that knowledge does not have to be proved as an element of the tort, we find no basis for requiring any specific mention of this factor. In our views the district court's instructions on the confidential relationship issue were proper.

With regard to the existence of counsel representing plaintiff, we conclude that that is merely one factor to be considered along with all of the others. In fact, once plaintiff established the existence of confidential relationship through proof of the five factors previously discussed, the burden was on Sears to prove that plaintiff had competent and independent advice. *See Jones v. Washington*, 412 Ill. 436, 107 N. E. 2d 672, 674 (1952). The judge instructed the jury on this issue (Tr. at 3467) and it obviously rejected Sears' argument. There is no basis for this court to disturb that determination. Thus, we conclude that a jury could reasonably find that a confidential relationship existed between the parties and that Sears breached its duties created by that relationship.

For all of the above-stated reasons, we find no merit to any of the issues raised in Sears' cross-appeal. We, therefore, affirm the district court's judgment of liability against Sears on all three counts of plaintiff's complaint.

V.

Plaintiff, in his appeal, seeks review of the district court's decision that he elected his legal remedies by taking the case to the jury, and therefore, is barred from pursuing his equitable remedies of rescission and restitution. Plaintiff argues that the district court, as a court of equity, should have accepted the jury's liability determination, but should have disregarded its damages verdict and instead should have granted rescission and restitution.⁷

7. Plaintiff asks this court to leave undisturbed his one million dollar judgment in Count III, negligent misrepresentations, because that is an action at law and therefore was properly given to and decided by the jury.

As to Counts I and II, plaintiff claims that the evidence proves that Sears' profits on the sale of quick-release wrenches was in excess of 40 million dollars. Sears argues that that figure is based on a misinterpretation of Sears' sales techniques. Given our disposition of this case, we need not resolve this dispute, although we do agree with the district court that the jury's damage award was not unreasonable.

Before considering the substance of the doctrine of election of remedies, we should determine what law, state or federal, should control our decision. Sears relies almost exclusively on Illinois decisions in arguing that after plaintiff takes his case to the jury in a court of law he cannot thereafter seek rescission of the contract from a court of equity. We, however, conclude that federal courts are not bound by the Illinois election of remedies doctrine.

The choice of law issue in diversity cases, where no Federal Rule of Civil Procedure clearly controls, is governed by the Rules of Decision Act, 28 U. S. C. § 1652.⁸ See generally Redish & Phillips, *Erie and the Rules of Decision Act: In Search of the Appropriate Dilemma*, 91 HARV. L. REV. 356, 357-58 (1977); Ely, *The Irrepressible Myth of Erie*, 87 HARV. L. REV. 693, 697-700 (1974). In interpreting that Act, at least one circuit has recognized that where a state procedural rule is derived from a judicial system that is fundamentally inconsistent with the federal judicial system, then the state rule need not be slavishly adhered to by a federal district court. *Atkins v. Schmutz Mfg. Co.*, 435 F. 2d 527 (4th Cir. 1970), cert. denied, 402 U. S. 932 (1971). See also Redish & Phillips, *supra* at 391 n. 189.

Under the Illinois cases cited by Sears, a plaintiff had to elect his remedies at the time of filing suit because Illinois had retained separate courts of equity and courts of law. See, e.g., *Carr v. Arnold*, 239 Ill. 37, 87 N. E. 2d 870 (1909). In federal courts, however, the distinction between law and equity has long been abolished. FED. R. CIV. P. 2. It would be anomalous to follow a state rule created under a judicial system so at odds with that of the federal system. In fact, it might be argued that

8. The Act provides:

The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the Courts of the United States, in cases where they apply.

28 U. S. C. § 1652.

such a holding would violate Rule 2, in which case state law, of course, would be disregarded. See *Hanna v. Plumer*, 380 U. S. 460, 469-74 (1965). We, therefore, feel no compunction in declining to follow Illinois law on this issue.⁹

Having determined that the district court is not bound by the rigid requirements of Illinois law on election of remedies, there remains the question whether plaintiff can still pursue his equitable remedies under the facts of this case. We conclude that the district court correctly decided not to disturb the jury's monetary award, but that the court erred in not considering whether rescission of the contract and return of plaintiff's patent were appropriate.

The general rule as to when an election is necessary is that "a certain state of facts relied on as the basis of a certain remedy is inconsistent with, and repugnant to, another certain state of facts relied on as the basis of another remedy." *Prudential Oil Corp. v. Phillips Petroleum Co.*, 418 F. Supp. 254, 257 (S. D. N. Y. 1975). Here, the jury was instructed that plaintiff could receive profits for Counts I and II, fraud and breach of a confidential relationship.¹⁰ Apparently dissatisfied with the size of the jury verdict, plaintiff sought in a post-trial motion to have the court reconsider the evidence and award relief based on essentially the same standard the jury used. To have granted plaintiff's request would have been completely un-

9. This result accords with the approach recently suggested in Redish & Phillips, *supra*. The authors in that article suggest that the best approach to Rules of Decision Act cases is to examine the policy underlying the state rule to determine if it affects primary conduct, is intended to benefit one class of litigants over another or is merely the state's evaluation of the most efficient way to handle its docket. *Id.* at 394-96. The Illinois rule separating the courts would appear to fall within the third category. In such a situation, the authors conclude, "The federal diversity court should be permitted to adopt or reject such rules since, as noted previously, it retains some interest in regulating its own internal procedures." *Id.* at 395. We agree with that conclusion.

10 See note 2 *supra*.

fair to Sears.¹¹ It might have been better for the court to require the plaintiff to elect his remedy expressly prior to instructing the jury, but plaintiff did not object to the court's procedure, and therefore, must have been satisfied to let the jury determine the appropriate award. Having let the case go to the jury without getting the issue clarified, plaintiff should not be heard to complain about the outcome of that procedure.

With regard to an election between the profits awarded by the jury and return of the patent based on rescission, however, we see no basis for invoking the election of remedies doctrine. Based on the jury instruction, plaintiff will receive one million dollars as the measure of *past* profits earned by Sears up to the time of trial. That award, however, is not inconsistent with return of the patent so that plaintiff can receive the *future* benefits of the patent that Sears fraudulently acquired. There will be neither a double recovery nor a factual inconsistency between these remedies. See *Prudential Oil Corp.*, *supra* at 257; G. BOGERT, *THE LAW OF TRUSTS AND TRUSTEES* § 946 (2d ed. 1962). Therefore, we conclude that going to the jury under a past profits instruction did not bar plaintiff from seeking rescission and thereby possibly recovering his patent. Whether rescission is appropriate, however, is an issue that should be decided in the first instance by the district court.

For the reasons stated above, we affirm the district court's judgment against Sears on all three counts in plaintiff's complaint and the court's decision not to alter plaintiff's monetary award, but reverse the court's determination that it lacked the power to award rescission and remand to the district court for a determination of whether rescission is appropriate under the facts of this case.

AFFIRMED IN PART; REVERSED IN PART; and REMANDED

11. The district court reasoned that such an approach would create the type of res judicata problems mentioned in our earlier decision in *Federal Savings & Loan Ins. Corp. v. American Nat'l Bank & Trust Co.*, 392 F. 2d 906 (7th Cir. 1968). While we do not perceive any basis for a claim of res judicata or even a double recovery problem, we do believe it would have been unfair to disturb the jury's award, and, therefore, agree with the district court's decision not to do so.

OPINION BY JUDGE SPRECHER

UNITED STATES COURT OF APPEALS

For the Seventh Circuit

Chicago, Illinois 60604

April 3, 1978.

Before

HON. LATHAM CASTLE, *Senior Circuit Judge.*

HON. ROBERT A. SPRECHER, *Circuit Judge*

HON. WILLIAM J. BAUER, *Circuit Judge*

PETER M. ROBERTS,
Plaintiff-Appellant,
Cross-Appellee,

Nos. 77-1354, 77-1499,

vs.

SEARS, ROEBUCK AND COMPANY, a
corporation,
Defendant-Appellee,
Cross-Appellant.

Appeals from the
United States Dis-
trict Court for the
Northern District of
Illinois, Eastern Di-
vision.

These causes came on to be heard on the transcript of the record from the United States District Court for the Northern District of Illinois, Eastern Division, and were argued by counsel.

On consideration whereof, it is ordered and adjudged by this court that the judgment of the said District Court in these causes appealed from be, and the same is hereby, **AFFIRMED IN PART; REVERSED IN PART;** and **REMANDED**, in accordance with the opinion of this court, filed this date. Sears, Roebuck and Company shall bear two-thirds of the costs on these cross appeals; Peter M. Roberts the other one-third.

IN THE
Supreme Court of the United States

OCTOBER TERM, 1978

No. 78 - 26

SEARS, ROEBUCK & CO., a corporation,

Petitioner,

vs.

PETER M. ROBERTS,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED
STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

**BRIEF OF PETER M. ROBERTS, RESPONDENT,
IN OPPOSITION TO THE
PETITION FOR WRIT OF CERTIORARI
FILED BY SEARS, ROEBUCK & COMPANY**

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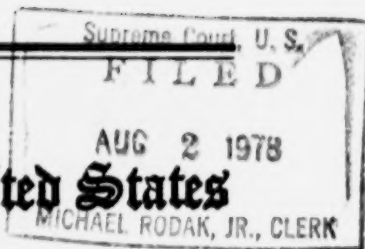


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IN THE
Supreme Court of the United States

OCTOBER TERM, 1978

No. 78 - 26

SEARS, ROEBUCK & CO., a corporation,

Petitioner,

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PETER M. ROBERTS,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED
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**BRIEF OF PETER M. ROBERTS, RESPONDENT,
IN OPPOSITION TO THE
PETITION FOR WRIT OF CERTIORARI
FILED BY SEARS, ROEBUCK & COMPANY**

CORRECTED STATEMENT OF THE CASE

The facts which fully support the verdict of the jury are well summarized in the Opinion of the Court of Appeals. Plaintiff-Respondent will not tender a complete Statement of Facts, although Sears has omitted completely any reference to its conduct in fully evaluating, testing, and deciding to replace nearly all of its product line with Roberts' Quick Release Device while

outrageously misrepresenting its merchantability, low manufacturing cost, and Sears' plans for marketing to Roberts. Sears also completely omits mention of its grossly improper conduct in employing Charles Fay, the attorney Sears knew was representing plaintiff without disclosing to Roberts that Sears had done so. The Court of Appeals' Opinion correctly and adequately covers the evidence on these subjects.

However, as it was necessary to do in the Court of Appeals, plaintiff must correct serious misstatements of fact contained in Sears' Petition. For this Court to allow certiorari based on the facts and argument in Sears' Petition would be to allow certiorari in a nonexistent, totally fictitious, case which is surely not the case tried in the District Court and described in the Court of Appeals' Opinion affirming the findings against Sears. One would expect that the hallmark of any submission to any court, and especially this Court, would be the punctilio of candor, especially when the petitioner has been accused and found guilty of gross misconduct by committing fraud, breach of a confidential relationship, and misrepresentation. Unfortunately, the District Court found occasion to remark about the insincerity of Sears' position during the trial (Tr. 2184-85), and the Court of Appeals remarked about Sears' lack of candor, finding one argument "disingenuous" (*Roberts*, 573 F.2d at 981) and finding that "by citing materials out of context, Sears has severely mischaracterized the District Court's analysis" (*Roberts*, 573 F.2d at 982). Sears' brief contains so many misstatements or misrepresentations by inference that it is difficult to be charitable and regard those errors as inadvertent, nor can all be answered in detail within reasonable page limitations. Many of the statements to be corrected below have previously been corrected in the Court of Appeals. (See Clarification of Fact in Plaintiff's Answer Brief To Brief On Cross-

Appeal Of Sears, Roebuck & Co., Cross-Appellant, pp. 21-34).

First, Sears misstates the fundamental nature of the case. Rather than being an action for "compensation for use of an invalid patent," examination of the complaints filed in the District Court and the Opinion of the Court of Appeals shows beyond peradventure that plaintiff's claim was one for rescission of an Agreement he was induced to enter by fraud and as a consequence of which he parted with ownership of his invention of a Quick Release Device and the attendant rights to use and commercialize that discovery and to all the know-how and engineering embodied in the only existing prototype of his confidential idea. The jury so found, and its findings were heartily sustained by the District Court and Court of Appeals which also found that plaintiff sought return of his property and the profits Sears unjustly obtained as a consequence of its gross misconduct, not simply "compensation." Sears itself recognized as much in the District Court as long ago as April 9, 1973, when it wrote:

Plaintiff seeks rescission of the contract and upon such rescission, injunctive relief, an accounting and damages.

...
The case before this Court is *not an action at law for damages* . . . It is a suit to rescind a fully executed contract . . . (Sears' Memo. In Opposition To Plaintiff's Motion For Jury Trial And In Opposition To His Motion To Bar Trial Of The Validity Of His Patent, at 2, 4, filed April 9, 1973).

Sears misstates the nature of plaintiff's property which it obtained by reason of its fraud, repeatedly arguing that plaintiff gave up only his patent, and further arguing that the "value of the patent" was in issue in the trial court. Reference to the Assignments Sears drew and tendered to the plaintiff shows that he

relinquished and Sears purchased all of Roberts' right, title and interest in his Quick Release idea and invention, including any patents which had or would issue. Among the benefits Sears obtained by this Agreement, in addition to the assignment of the patent, were the disclosure itself, bringing this unique and highly promotable idea to Sears' attention, and the completed reduction of the invention to a fully dimensioned working prototype. Sears also obtained resulting lead time allowing extensive testing and preparation for massive production so as to obtain an early and long lasting monopoly of the market for this new tool. It also obtained Roberts' rights to commercialize his invention worldwide. Significantly, Sears also obtained complete freedom from fear of an infringement action along with the presumptive validity of any patents which might issue.

Sears omits disclosing that when the patent office informed Charles Fay, in May of 1965, that a patent would be allowed on the Roberts application, that information was conveyed to Sears by Fay (whom Sears was then negotiating to employ in its own behalf without disclosure to Roberts), but not to Roberts. Knowing that a patent would be allowed, Sears drafted the Memorandum of Agreement in such a way that it inferred no patent might issue. Even more significantly, before the patent issued in September of 1965, Sears instructed Fay (by then its employee) to allow Sears to examine the allowed claim. Only after Sears had carefully done so, and after it had previously received the opinions of Fay, the manufacturers' patent lawyers, and its own patent lawyers, that there was novelty in the Roberts invention, did Sears then instruct Fay to cause the patent to issue. Thus, it was Sears, not Roberts, who caused the patent to issue in its existing form and thereby caused public disclosure of Roberts' previously secret device, as well.

Needless to say, as the Court of Appeals' Opinion discloses and contrary to Sears' statement in its Petition, Sears did not obtain Roberts' property "by agreement" but by fraud, the agreement being only the artifice used to accomplish the end.

Sears seriously mischaracterizes the concept of the Quick Release Device. It does not simply provide for release of a socket by means of a push button, but consists of a strong and dependable mechanism which satisfies a long-felt need in the industry by making possible the positive retention of the socket on the ratchet wrench (a highly important tool in the automotive industry) and, more importantly, at the same time providing for the quick and easy attachment and removal of sockets by means (for the first time) of a *one-hand operation*. No wrench ever made and sold provided this revolutionary feature. Sears' statement that there existed two earlier patents on the same concept is false, being only Sears' contention. No court has ever so held, and no challenge to the Roberts patent has ever been made except for Sears' improper attempt in defense of this case. The import of one of those two patents, the Gonzalez patent, was fully aired at the trial and rejected by the jury. As will be shown later, the other patent on which Sears relies, the Carpenter patent, bore no relevance whatever to the issues in this case and, despite Sears' misleading colored drawings, is demonstrably different in structure, operation, function, and purpose.

It is not true that plaintiff approached defendant or commenced negotiations with defendant. Rather, when the plaintiff, who was but a young hardware clerk in a Sears retail store when he invented his Quick Release Device on his own time, showed his prototype to the store manager, the store manager persuaded him to submit both the confidential idea and the fully workable prototype to Sears through its formal suggestion system.

Leonard Schram, a Sears attorney, after Sears had held and tested plaintiff's prototype for eight months, finally contacted plaintiff by telephone in Tennessee.

Sears misstates its concern about the validity of any patent which might have issued on Roberts' invention. Leonard Schram, Sears' attorney, testified the company was not concerned about validity, but only that they not infringe some pre-existing patent. (Tr. 2265-66) Indeed, at the time Sears evaluated Roberts' prototype, it had received the opinions of Charles Fay, of the patent counsel for Sears' captive manufacturer, Moore, and of its own patent counsel, that there was novelty in the Roberts' concept. Significantly, Sears never expressed concern about the validity of any patent which might issue on his invention to Roberts. Quite the contrary, Arthur Griesbaum, Sears' chief buyer for hand tools, testified that learning a patent had actually issued would relieve any concern about validity which he had. (Tr. 2037) Sears' only representation to Roberts was that the patent would be "limited" (ostensibly meaning that it would only cover application to ratchet wrenches). The strained interpretation of that representation now claimed by Sears (*i.e.*, that it could be easily avoided by competitors) found its way into evidence only out of the mouths of Sears' trial witnesses, but is not reflected in the words penned by the participants at the time of Sears' fraudulent conduct. The common sense and correct interpretation of Sears' words is, however, that the claim is a narrow one, covering only this application of a quick release feature to ratchet wrenches, but that the patent is still a good, strong, valid patent. (Bush at A. 310). The court recognized this common sense meaning (Tr. 503) and Sears' counsel agreed (Tr. 503). Sears' claim now that it did not have plaintiff's patent application before it during the period of evaluation rings hollow, for Sears never even requested a copy from Roberts or Fay and because Sears

did in fact have the allowed patent claim before it whereas that information had been withheld from Roberts by his lawyer whom Sears actively negotiated to hire and did hire in its own behalf.

The conclusion must be, as Schram himself admitted, that in acquiring plaintiff's Quick Release Device, Sears cared not one whit about the validity of any patent which might issue, but only that no prior patentee could restrain Sears' exploitation of this fantastically useful and marketable invention. As Judge Leighton recognized and ruled, and as the Court of Appeals reviewed and affirmed, Sears' determination of the value of Roberts' invention at the time it misrepresented to Roberts that it had extremely nominal value was based not at all on the strength or weakness of any patent which might issue.

Sears erroneously contends that Charles Fay submitted several counter proposals. Rather, he submitted one, meek letter in February of 1965, suggesting a larger royalty with no ceiling (PX 28), which Sears decisively rebuffed. In response to Sears' final offer contained in its letter of April 23, 1965, however, Fay suggested to Sears (without informing Roberts) that Sears might want to obtain foreign rights to Roberts' invention, something never discussed before (PX 36). Contrary to Sears' assertion that *some* of Fay's proposals were accepted by defendant, the only proposal accepted by Sears was one to provide Sears all of Roberts' foreign rights without paying Roberts one additional penny.

Sears' statement that plaintiff looked elsewhere for a better price but could not obtain one is misleading, because it fails to disclose the time sequence involved and the fact that the only inquiry was a casual, momentary conversation between Fay and a man named John DeLiso, of a small old line local tool company, the Stevens-Walden Co., in Massachusetts long before Sears

indicated any real interest in the item. This conversation took place long before, not after, as Sears would infer, Schram's April 23 offer. DeLiso told Fay only that the idea would not be profitable *for his company* to go into, without explaining why. However, Warren Wieland, an executive with Duro Metal Products Company, explained that Stevens-Walden would not find this invention profitable for them because they were an old, small company selling principally to the Government and one or two distributors and are not regarded as a competitive force in the hand tool industry (Tr. 1526).

Sears states that it did not market any wrenches equipped with Roberts' device until after the patent issued, but fails to disclose, as the Court of Appeals observed, that "within days after the signing of the contract, Sears was manufacturing 44,000 of plaintiff's wrenches per week—all with plaintiff's patent number prominently stamped on them—and within three months, Sears was marketing them as a tremendous breakthrough." (*Roberts*, 573 F.2d at 980). Although the Agreement was not signed by Sears until late July, 1965, and no offer was made to Roberts until April 23, 1965, Sears had decided in March of 1965 to design a fine tooth wrench with a Quick Release feature built into it and to incorporate the Quick Release feature into its then existing wrench models which constituted nearly 75% of all wrenches Sears sold. (*Roberts*, 573 F. 2d at 979). That Sears did not actually hit the market with its massive production of Roberts' wrenches until a short time after the patent itself issued (at Sears' direction and approval) is totally inconsequential.

Sears also misrepresents the diligence of the parties in asserting their claims. Sears infers delay on the part of the plaintiff by stating he received his royalty payments and then "more than four years later" filed this suit. Sears fails to disclose that the plaintiff entered military

service in the United States Air Force shortly after signing the Agreement and was thereafter stationed in England for four years until 1969 (A. 46, 195-96). Although he sought legal counsel concerning this matter while in the Air Force, Roberts was informed by military lawyers that they were unable to assist him and that he should seek counsel upon return to the United States (A. 196-97; Tr. 410-14). Promptly upon his discharge and return to the United States in 1969, Roberts consulted counsel, notified Sears that he was rescinding the Agreement, tendered return of the royalties he had received, and commenced suit.

On the other hand, contrary to the inference of diligence Sears would have the Court draw when it states it denied the allegations of the complaint and "pleaded as an affirmative defense that plaintiff's patent was invalid" (Sears' Pet. at 6), Sears does not disclose that it failed to plead invalidity as an "affirmative defense" until April of 1973 in responding to plaintiff's Amended Complaint fully three and one half years after suit had been filed. Even worse, Sears incorrectly states that Judge Leighton (who presided over this case for nine months before trial, not "shortly before trial") ignored "uniform" rulings that patent invalidity was a basic issue to be tried first. Sears fails to disclose that Judge Prentice Marshall had earlier set all issues for trial at one time (Order of Dec. 19, 1973), that Judge Leighton had given very careful consideration to the posture of the pleadings and rulings of the judges who presided over this case before him, but (most significantly) that the posture of the pleadings when Judge Leighton ruled was radically different than at the time of earlier decisions, as he repeatedly told Sears' counsel. The different posture of the case was recognized by Judge Leighton on the second day of trial, December 21, 1976, when he asked Sears' counsel how a patent owner can ask the court to hold his own patent invalid; when he

distinguished Sears' erroneous interpretation of *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); and when he specifically told Sears that the posture of the case was different at the time of trial than when earlier judges had ruled (Tr. 68-69). Far from being even an important issue since the inception of this case, the validity of plaintiff's patent has never properly been placed in issue by Sears, as the trial court recognized. On no less than nine different days of trial and no less than 25 different occasions, Judge Leighton wondered at, inquired about, considered, and finally rejected Sears' peculiar attempt to conduct what can only be termed a one-man declaratory judgment action.¹

Although Sears claims it was "required to purchase the Gonzalez Quick Release feature for hand wrenches" (Sears' Pet. n. 5, at p. 5), the fact Sears omits disclosing is that when the Gonzalez claim was made in 1968, Sears consulted patent counsel for a second time, was told for a second time that the Roberts design did *not* infringe Gonzalez, but decided based on counsel's advice to purchase the Gonzalez feature not out of fear of infringement, but rather by a desire to monopolize the market. A letter from Sears' counsel told Leonard Schram at that time that while there was no infringement, it might be worthwhile to acquire the Gonzalez patent and suppress it to stop anyone else from competing with the Roberts construction (Tr. 2293).

Concerning the conduct of the trial, Sears erroneously states that the court received plaintiff's evidence con-

¹ Dec. 20, 1976—Tr. 8, 10, 11, 20, 24; Dec. 21, 1976—Tr. 68-69, 131; Dec. 23, 1976—Tr. 463, 466-67, 490-96; Dec. 27, 1976—Tr. 509; Dec. 28, 1976—Tr. 739, 775-78; Jan. 6, 1977—Tr. 1925; Jan. 7, 1977—Tr. 2177-205; 2180-81, 2184; Jan. 11, 1977—Tr. 2399-426; 2567-70, 2572, 2579-81, 2602; Jan. 14, 1977—Tr. 2881-87, 2983, 3190.

cerning prior art and the value of the patent but refused to receive the same evidence when tendered by defendant. Review of the record reveals this statement to be palpably false. Plaintiff presented no evidence whatever concerning prior art, but only testimony about the problems workers suffered in trying to remove sockets from wrenches then available. Plaintiff presented no evidence whatever concerning the "value of the patent," but only evidence of the enormous benefits and profits Sears obtained from the use of plaintiff's property. On the other hand, Sears not only offered evidence which was admitted (the Gonzalez patent) when it was deemed relevant by the court to a contested issue in the case (Sears' state of mind concerning the value of plaintiff's device in 1965), but also offered evidence of "prior art", being the Carpenter patent, a Snap-on Tools Corporation Loxocket, and patents issued to Peterson, Rhine-vault,* Beers,* Wendling,* DePew,* and Drazick,* none of which were relevant to any contested issue in the case and were therefore excluded. As Judge Leighton ruled, the Carpenter patent was not known to Sears until 1971, two years after this case was filed, and played no part in its evaluation of the value of Roberts' invention, nor had it affected the value of Sears' use of Roberts' invention after its discovery (Tr. 2425). The other patents Sears offered were offered without the support of any witness testimony that they were known to, relied upon by, or in any way affected Sears' opinion in 1965. Although those patents were "prior," there was no foundation laid for their admissibility. Finally, Sears fails to tell this Court that one of the other items of "prior art" which it offered was a Loxocket (and catalogue pages showing the Loxocket), which was not a Quick Release device for wrenches at all, or even a wrench, but rather a type of socket which locks onto power tools.

* Cited by the patent examiner in the Roberts Patent No. 3,-208,318.

Although *both* parties argued their theory about the validity of the patent, the crucial point is that validity was not in issue under the state of the pleadings. In fact, while plaintiff explicitly argued that the validity of this patent made no difference to the decision of the case (Tr. 3330), the evidence showed that Sears was continuing even through trial to exploit the value of the patent in its Retail Merchandise Lists (PX 183; excerpt attached as Appendix A).

Finally, Sears complains that plaintiff "will assert" his patent against defendant and others upon rescission of the Agreement. (Sears' Pet. n.8, at p. 7). This complaint is peculiar, since Sears claims that it wants a determination of the validity of the patent, and repeatedly asserts the patent is "worthless" even to the extent of asking this Court, without any proper adversary proceeding having been instituted by Sears, to determine the validity of plaintiff's patent. Sears has not explained why, however, if it is confident the patent is not valid, it simply did not agree to rescind and return the patent to Roberts as early as 1969 when he tendered repayment to Sears of the ten thousand dollars it had paid him, and thereby place him in an adversary position enabling Sears to obtain a determination of validity. Moreover, although Sears claims plaintiff's patent to be "worthless," the fact is that even to the day of trial in 1976, Sears continued to manufacture and sell its Quick Release ratchet wrenches under the Roberts patent and held them out in its Retail Merchandise Lists as being "patented." (PX 183). To this day, despite the jury verdict and the Opinion of the Court of Appeals, Sears continues to refuse to execute complete and proper assignments to plaintiff of the rights plaintiff relinquished

as a consequence of Sears' fraud.² Indeed, although Sears claims these patents to be worthless, the zeal with which Sears retains them extends even into the sincerity of this appeal, for Sears has told the District Judge, after informing him that Sears was preparing a Petition for Certiorari, that "if rescission is not allowed, I suspect that there would be no point in appealing the case to the United States Supreme Court." (Tr. of Proc. May 19, 1978, at 4). Since the Court of Appeals and Justices Stevens and Burger denied Sears' petition for a stay of the mandate, Sears has paid plaintiff the money judgment of \$1,000,000.

We regret having to conclude that these misrepresentations made by Sears show that although it is one of this nation's largest retail companies, Sears evidently will do anything and say anything to anyone in order to keep these "worthless" patents, even to the extent of abandoning this appeal if only they may retain Roberts' property.

We respectfully suggest that the Court should deny Sears' Petition not only because it fails to assert grounds sufficient to warrant certiorari, but also because of the misrepresentations of fact Sears has made.

² Instead, in responding to plaintiff's Motion and Supplemental Complaint seeking rescission which is now pending in the District Court, Sears has attempted to avoid re-assignment of the important ancillary rights it obtained from Roberts of his rights to sue past infringers and to commercialize the Quick Release device worldwide, by tendering only a re-assignment of the patents themselves deliberately withholding mention of these important attributes.

ARGUMENT

I. THE COURT OF APPEALS' OPINION, CONSISTENT WITH *KEWANEE v. BICRON* AND IN HARMONY WITH *LEAR, INC. v. ADKINS*, PROPERLY DECIDED THAT NOTHING IN PATENT LAW REQUIRES COURTS OF JUSTICE TO PERMIT FRAUD TO GO UNREMEDIED.

Sears' effort in the District Court and Court of Appeals, as the Court of Appeals' Opinion implicitly recognizes, has been to cloak and thereby attempt to shield its fraud in the mantle of the public interest in patent law. But as the Court of Appeals decided, after carefully reviewing this Court's recent pertinent authorities on the subject, ". . . nothing in patent law requires this Court to permit fraud to go unremedied." (*Roberts*, 573 F. 2d at 982). A more accurate statement of the question presented for review than the one Sears tenders in its Petition, would be: *Whether a corporation which acquires patent and other rights by fraud, breach of a confidential relationship, and misrepresentation, which thereafter uses those wrongfully obtained rights to its great benefit for 13 years, and which actively prevents adjudication of the validity of the underlying patent it caused to issue on the invention it fraudulently obtained, may then interpose a nonadjudicated claim of invalidity to immunize its fraudulent misconduct?* Nothing this Court has said, held, or implied in any decision supports Sears' attempt to obtain judicial sanction of its unconscionable behavior. To so contend is to demean this Court's decisions and attempt to subvert the judicial process to become the handmaiden of commercial deceit.

Sears' Petition cites a number of cases peripherally, but bottoms on an erroneous interpretation and attempt

to extend this Court's decision in *Lear, Inc. v. Adkins*, 395 U.S. 653, 23 L. Ed. 2d 610 (1969). The Court of Appeals exhaustively explained the significant differences between this case and *Lear*, differences which Sears now obfuscates in an effort to obtain access to this last forum. Sears mischaracterizes the facts in *Lear*, as it does for the *Roberts* case itself, by implying that the defendant in *Lear* operated under the patent when it says the defendant "breached its agreement and refused to pay the agreed royalty on the basis that the patent was invalid." (Sears' Pet. at 9) The fact is, as plaintiff has pointedly reminded Sears in briefs filed in the District Court as well as the Court of Appeals, that the defendant in *Lear* repudiated the agreement in 1957, fully three years before any patent issued in 1960, and consequently *never operated under the patent and never obtained benefits from it and never enjoyed freedom from an infringement action.*

In an effort to distinguish the Court of Appeals' reasoning that patent policy prevailed over private equity in *Lear* only after the Court balanced the claims of the parties in accord with requirements of commercial good faith, Sears also mischaracterizes this Court's discussion of the equities of the parties in *Lear*. Thus Sears somewhat perversely boasts that it "honored" the fraudulently obtained agreement and attempts to compare its conduct favorably with that of the defendant in *Lear* who simply breached its contract. Sears distorts the Court of Appeals' language and speaks of equities as evenly balanced as in *Lear*, even though the Court of Appeals found "There is no balance of equities between Sears and plaintiff in their contractual relations." (*Roberts*, 573 F.2d at 982) The Court also found "Sears' actions in this matter have violated completely the basic assumption in *Lear* that there was good faith in the dealings between the parties." (*Roberts*, 573 F. 2d at

982). Obviously, the equities of which the Court of Appeals spoke and which this Court balanced in *Lear* (before turning to a consideration of patent policy) concerned the good faith of the two parties at the time they negotiated the initial contract, not the parties' subsequent treatment of the contract (which was bona fide in *Lear* but bogus in *Roberts*). In this case, Sears starts from a position of bad faith, and consequently can claim no protection under patent policy or this Court's holding in *Lear*.

That Sears cannot shield fraud behind patent policy was determined by this Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 487, 40 L. Ed. 2d 315 (1974), which the Court of Appeals cited in support of the unsailable proposition that nothing in patent law discourages states from preventing commercial misconduct.

Consistent with *Lear*, decisions of the Seventh Circuit Court of Appeals in *Kraly v. National Distillers and Chemical Corp.*, 319 F. Supp. 1349 (N.D. Ill. 1970), *aff'd.*, 502 F.2d 1366 (7th Cir. 1974), and *Moraine Products v. ICI America Inc.*, 538 F.2d 134 (7th Cir. 1976), demonstrate that Circuit's clear recognition that one whose patent property has been used to great benefit by another is entitled to monetary recovery until such time as the user ceases to assert that its activities are covered by the patent, has repudiated the patent and any agreement pertinent thereto, and has assumed the risk of liability for infringement. In *Kraly*, the court quoted language from Judge Will's district court opinion with approval, stating:

We do not, however, believe that our present finding of invalidity relieves the defendant of its obligation to pay royalties for the period in which it was enjoying the benefit of its license . . . So long as [the] defendant sought the protection of the pa-

tent, it is only equitable that it should discharge its royalty obligation under the license agreement. Once it ceased to represent that its product was licensed under that patent, it had repudiated the license agreement and assumed the risk of being found liable for infringement without receiving the concomitant commercial benefit of being a licensee. (emphasis added) *Kraly*, 502 F.2d at 1372.

In *Moraine*, where the defendant suppressed a licensed patent, the court held the plaintiff was entitled to recovery for the loss of the reasonable and justifiable expectation of economic benefits from the exploitation of the patent until the date it was adjudicated invalid.³ In the case at bar, the evidence shows that Sears continues to assert that its activities are covered by the patent in its Retail Merchandise List comprising basic information conveyed to store employees to be further conveyed to customers (Button at Tr. 1609; Norris at Tr. 1434-35) and continues to avoid the risk of liability for infringement.

Plaintiff's position here presents a stronger case for relief than *Kraly*, *Moraine* and the other cases cited above because Sears obtained not just a license, but the complete assignment of not only the patent, but the numerous other substantial benefits of rights to Canadian patent property, rights to foreign patents which could have been perfected, and a fully workable prototype tool and attendant know-how and technical information, all of which Sears obtained before the issuance of any patent, allowing extensive testing and

³ Accord, *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972), and 489 F.2d 968, 973 (6th Cir. 1973), cert. denied, 416 U.S. 939 (1974), holding the licensee liable for royalties until the time the finding of invalidity in a separate case brought by an unrelated third party was affirmed on appeal. See *Heltra, Inc. v. Richen-Gemco, Inc.*, 395 F. Supp. 346 (D.S.C. 1975), rev'd on other grds., 540 F.2d 1235 (4th Cir. 1976) (an assignment case).

preparation for massive exploitation.⁴ In addition, none of the cases cited by Sears involves the compelling state interest in preventing fraud, misrepresentation, and breach of a confidential relationship so glaringly present here.⁵ As these decisions demonstrate, Sears' conclusory statement that damages may not be recovered from one who uses an "invalid" patent is grossly overbroad and does not correctly state the law.

To avoid the Court of Appeals' reasoned distinction that the assignment Sears obtained in this case (different from the license previously discussed between the parties) also took the case out of the *Lear* umbrella, because there was then no patent policy to be served, Sears cites many cases in support of the proposition that an exclusive license is "usually" tantamount to an assignment. But this out of context statement completely misses the point, because the rights an exclusive licensee obtains vis-a-vis other parties have nothing to do with this controversy between the parties to the assignment.

⁴ As it did in both the trial court and Court of Appeals, Sears has again misquoted *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F.2d 55 (7th Cir. 1970) which simply held that the doctrine of estoppel by marking could not permanently prevent a licensee from challenging validity, in accord with the abolition of licensee estoppel in *Lear*. But the *Roberts* case, as Sears ignores, has nothing to do with the issue of estoppel to assert invalidity, either by a licensee or because of marking. Nothing in *Beckman* treats of the defendant's liability arising out of the past use and reliance upon the patent, a liability which was directly addressed by the court in *Kraly and Moraine* and by other circuits in the cases cited in note 16, above.

⁵ In his concurring opinion, in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 233, 11 L.Ed.2d 661, 668 (1964) Justice Harlan recognized the importance of state public policy by reasoning: "Vindication of the paramount federal interest at stake does not require a State to tolerate . . . specifically oriented predatory business practices." This view became the majority opinion and law of the land in *Lear*, 395 U.S. at 662, n. 10, 675; and *Kewanee*, 416 U.S. at 474, 481-82, 487.

For purposes of obtaining an adjudication of the patent, the license reserves ownership for the licensor and grants possessory rights to the licensee, thereby enabling them to be adverse parties. An assignment, to the contrary, transfers all ownership title and interest to the assignee, completely removing the assignor from the status of an adverse party concerning the patent property, as a matter of law. *Waterman v. Mackenzie*, 138 U.S. 252, 34 L. Ed. 923 (1891); *Grantham v. McGraw Edison Company*, 444 F.2d 210 (7th Cir. 1971); *semble*, *Maloney-Crawford Tank Corp. v. Rocky Mt. N. Gas Co., Inc.*, 494 F.2d 401 (10th Cir. 1974).

To permit Sears to gain both ownership and benefit of patent ownership through fraud, thereby avoiding the risk of an infringement claim, is the very antithesis of the *Lear* policy of encouraging an early challenge. In practice, permitting Sears to challenge validity at this point would contradict the policies *Lear* intended to promote because there would be no incentive for the patent assignee to challenge the patent unless and until the defrauded inventor fortuitously discovered the fraud, brought an action to rescind against the wrongdoing assignee, and appeared to have a significant probability of prevailing in that action.

The compelling state policy interests of preventing fraud and breach of confidential relationships at stake in this case were simply not involved in *Lear*. There was no issue of wrongful conduct concerning acquisition of the license in *Lear*. Because it did not own the patent, the defendant licensee who repudiated also took upon itself the risk of being sued as an infringer—a risk Sears, as an assignee, never assumed in this case. The trial court perceptively and succinctly described Sears' stratagem when he observed:

Let you gentlemen argue it. I would like to hear you argue the point here before this jury that here is

one of the biggest corporations in the world, that bought a patent, that manufactured millions of the wrenches, still is selling the wrenches that it paid for, still benefiting from it, and now it wants, because it wants to deal with this litigation, its own patent declared invalid. (Tr. 2184-85)

On the first day of trial, the court distinguished Sears' misplaced reliance on *Lear* thus: ". . . this case is in a different posture. You see, this would be a different case if Sears was litigating with somebody else, but Sears is the owner of the patent . . ." (Tr. 69)

As these quotations from the trial transcript show, the District Court, as well as the Court of Appeals, was fully conversant with this Court's *Lear* and *Kewanee* decisions and ruled consistent with them. No conflict exists between any decision of this Court or of any other Court of Appeals and the carefully reasoned result reached by the Seventh Circuit Court of Appeals in this case.

Blonder-Tongue Labs, Inc. v. University of Illinois Foundation, 402 U.S. 313, 28 L. Ed. 2d 788 (1971), cited by Sears for the proposition that one cannot obtain royalty payments from a licensee based on an invalid patent, has no bearing whatever on disposition of this case. Indeed, although Sears implies otherwise by claiming that ". . . the Court below erroneously concluded that *Lear* and *Blonder-Tongue* do not apply to this case . . ." (Sears' Pet. at 11), Sears never cited *Blonder-Tongue* to the District Court or the Court of Appeals, has never placed reliance on it, and apparently has never previously believed it had application. The quotation Sears takes from *Blonder-Tongue* is out of context, for the issue there concerned repeated infringement suits against different parties resulting in contradictory

rulings concerning the validity of the same patent. *Blonder-Tongue* had nothing whatever to do with the protection from fraud of equitable rights between an assignor and a defrauding assignee of all rights in an invention, including patent rights, before any public disclosure of a confidential idea. Indeed, the next sentence written by this Court after the material quoted by Sears recognizes the underlying assumption of good faith thus:

The far reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope (citation omitted) *Blonder-Tongue*, 402 U.S. at 343, 28 L. Ed. 2d at 808.

Sears' citation of *Scott Paper Co. v. Marcalus Mfg. Co., Inc.*, 326 U.S. 249, 90 L. Ed. 47 (1945), for the proposition that federal policy must always prevail over equity is also grossly overbroad and taken completely out of context, for in *Scott*, the issue was whether the inventor/assignor of a patent to the plaintiff company could practice a similar art for the defendant company under a pre-existing expired patent, not whether a wrongdoer who uses the misappropriated invention and the patent it itself caused to issue thereon must account for ill-gotten gains. The *Roberts* case presents the simple question of determining the equities between private parties when no conceivable harm to the public interest or patent policy can result.

Though Sears speaks of "numerous other federal decisions," the only other decision besides *Beckman* which Sears cites is the totally inapposite old case of *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 99 F.2d 9 (1st Cir. 1938). Though Sears labels *Sinclair* "strikingly similar" to the case at bar, *Sinclair* is in fact

further afield than *Lear*, for it involved nothing more than an attempt by the plaintiff to enforce a contract to assign a derivative patent, there being no issue of fraud or other wrongdoing involved. Moreover, in *Sinclair*, the plaintiff was not trying to obtain return of his own property, but to force the defendant to convey the defendant's patent to him. The contract in question specifically limited plaintiff's right to the patent itself, and had nothing to do with the full panoply of property interests which Roberts was misled into conveying to Sears. In addition, as the *Sinclair* court itself stated, the "real issue of the case" concerned the construction of the contract, and whether in fact any information had been conveyed to the defendants from which they were able to obtain the patent the plaintiff demanded. The court found no such evidence. Concerning the admission of evidence, the court held that evidence concerning the validity of the defendant's patent should have been received on the question of damages, but it is crucial to observe the distinguishing feature that in *Sinclair*, the "value of a patent" (99 F.2d at 12) was in issue. In *Roberts*, the value of the patent is not in issue, the issue being whether Sears concealed what it had ascertained from testing of Roberts' prototype and from local market research concerning the great utility and enormous sales appeal of the Roberts design in 1965, whether it fraudulently misrepresented those facts to Roberts by making statements concerning the importance of his invention which were utterly contrary to what Sears had learned, and if so, whether Sears should be deprived of the value of the use of Roberts' invention, being its unjust enrichment.

Perhaps the inapplicability of *Sinclair* can best be illustrated by hypothesizing facts in that case similar to those here; namely, assume that the defendant's patent had been assigned to the plaintiff pursuant to a contract

fraudulently obtained by the plaintiff, that the plaintiff used the defendant's property for many years to its great profit, and then when the defendant charged that the initial assignment contract was obtained by fraud, the plaintiff asserted the patent was worthless. That is a far different case than the simple attempt by plaintiff in *Sinclair* to enforce a contract to assign another party's patent.

From this review of all the authorities cited by Sears, it becomes apparent that the requisite standard for seeking certiorari, that the decision to be reviewed conflicts with other controlling authorities, has surely not been met by Sears' distorted analyses of *Lear*, *Beckman* and *Sinclair*.

Sears, Alone, Has Prevented Adjudication Of The Quick Release Patents It Was Using.

Sears can make no good faith claim that it has, in any way, been deprived of the opportunity to test the validity of the plaintiff's patents by any action of any party or court other than itself. Quite the contrary, from the very day Sears wrongfully acquired plaintiff's property, every position it has taken commercially, legally, and tactically, has been motivated by Sears' desire to both retain and exploit the patent while preventing an adjudication of its validity. As the Court of Appeals noted (*Roberts*, 573 F.2d at 979, 982), Sears obtained from Roberts neither a license, nor an exclusive license, but a complete assignment of all the plaintiff's rights in his invention. Curiously, the correspondence from Sears to Charles Fay during negotiations spoke only of a "license" (i.e. PX. 34), the assignment being first raised and included in the actual contract forwarded for execution.

Second, when Roberts sought to rescind the contract in 1969, by letter and then by filing suit, Sears could have simply agreed to rescind, accepted back Roberts' tender of the \$10,000 royalty payment, and then placed itself at risk of infringement. If Sears had truly believed the Roberts patent to be worthless, doing so would have accomplished the most expedient resolution of the controversy. Sears refused to rescind and return all rights it obtained from Roberts, has continued to refuse to this date (still attempting to hold plaintiff's rights to sue for past infringement), and has even offered to abandon its appeal if it can hold Roberts' patent. The Appellate Court specially noted the "disingenuous" nature of Sears' argument on this point. (*Roberts*, 573 F.2d at 981).

Third, Sears could have brought suit against any competitor who began marketing a Quick Release wrench after the several years of exclusive control of the market Sears enjoyed, and if the patents were truly worthless, we presume the courts would have so ruled. Sears chose not to take this step, either, obviously finding value in the retention of these presumptively valid patents, which is particularly demonstrated by Sears' use of the patent number even through the time of trial in 1976 in its Retail Merchandise List. (PX. 183)

Instead of taking any one of these steps, this large and sophisticated corporation with presumably highly talented and sophisticated patent counsel waited until 3½ years after litigation began to even assert the issue of invalidity, and then chose to do so by filing what was termed an "affirmative defense" to plaintiff's primary claims of fraud, breach of a confidential relationship and misrepresentation. Sears surely must have known that because it had obtained plaintiff's property by assignment, the plaintiff could never be a proper adverse party against whom the validity of the patents

could be litigated. He held no right or interest in them and thereby there could never be any case or controversy between Sears and Roberts until he obtained some proprietary interest in the patents. *Waterman v. Mackenzie*, 138 U.S. 252, 32 L. Ed. 923 (1891).

Judge Leighton quickly saw the charade of Sears' untimely attempt to carry on a one-man declaratory judgment action. Sears itself undoubtedly recognized that "invalidity" could not be an "affirmative defense" absent any claim by the plaintiff for injunctive relief predicated on the patent, as shown by its belated and improper attempt to redesignate its "affirmative defense" as a counterclaim for declaratory judgment near the end of trial when plaintiff had no opportunity to respond to this new claim, even if he could have been a proper party to do so (Tr. 2177-2205).

Sears' tactic, from the day it obtained plaintiff's signature on the contract for assignment, through its manufacture and sale of millions of wrenches with the Roberts patent number imprinted on them, through preparation of this lawsuit, through trial, through the appeal, and to the very steps of this courthouse, has been to doggedly retain and protect the patents it obtained by fraud, not to obtain an adjudication of their "value." As the Court of Appeals observed, "the facts . . . make abundantly clear both that Sears believed that the uncontested patent had significant economic value as a deterrent to competitors and that the patent, in fact, did serve to deter competitors." (*Roberts*, 573 F.2d at 981). Such conduct by Sears refutes any basis for asking this Court to issue its writ of certiorari.

II. THE ROBERTS QUICK RELEASE PATENTS ARE VALID, BUT THAT FACT CAN ONLY BE DETERMINED IN A PROPER ADVERSARY PROCEEDING IN A COURT OF ORIGINAL JURISDICTION BETWEEN PARTIES HAVING A JUSTICIABLE INTEREST IN THE PROPERTY.

Without placing the matter in controversy with proper pleadings in an adversary proceeding in any court, Sears somewhat surprisingly asks the United States Supreme Court to adjudicate *de novo* the validity of plaintiff's patent.⁶ In doing so, Sears tenders an incomplete description of the limited amount of testimony which was properly adduced on the subject at trial, and grossly distorted colored diagrams of the patents on which Sears relies. Plaintiff's response to this irrelevant section of the Sears' Petition will be brief, for it deals with a matter not in issue and can only be intended to try to prejudice the Court's objective review of the facts and law discussed in the foregoing section by showing superficially similar structures which, in truth, differ radically in their design, function, and purpose.

Sears' partial presentation of the patent structures and law is erroneous at each and every turn. First, simple observation of the patent drawings Sears appended to its Petition shows that the coloring is incorrect and misleading. In attempting to show that each of the three structures contains a driving stud in the head (something which is not true), Sears has colored the end portion of the handle in the Carpenter patent

⁶ The *Sinclair*, *NCR Corp.*, and *MacLaren* cases cited by Sears stand not for the proposition that a court of review may determine patent validity in the first instance without the issue being properly raised and the record being properly made in the District Court, but only that the appellate court may exercise its usual appellate jurisdiction in deciding the ultimate question of validity based upon such a properly made record. They are inapposite here, since no such record was or could properly have been created under the state of the pleadings.

brown, when simple observation of the uncolored diagram shows that the brown portion is nothing more than part of the handle as the diagonal lines in the drawing demonstrate. From this error, and from its simplistic listing of the elements of plaintiff's patent claim, Sears concludes that all of the elements are contained in each of the Gonzalez and Carpenter patents. Quite the contrary, however, each of those patents bears striking differences which must be the subject of expert analysis, as Sears itself recognized by producing two expert witnesses at the trial, but to neither of whom Sears makes reference on appeal

Contrary to Sears' conclusory assertions of similarity, the Gonzalez patent claims only a retention function (Tr. 2733), has no recess in the pin, and does not carry the ball detent on a surface of the pin. It is specifically different, being limited to a flange on the end of a pin (Marks' opinion to Schram in 1968, Tr. 2290), and lacks the unique capability of self-adjustment for wear and different sizes of sockets (Fortman at Tr. 2648-50, 2652-62; Youngdahl at Tr. 2733-39, 2757-67). The Carpenter patent differs materially from Roberts' design because it is not even intended for application in a ratchet wrench, but rather in a brace (Supp. A84). Moreover, there is no head, no stud extending from a side surface of the head, and no recess for selective alignment. The Carpenter ball does not ride on a surface of the pin, but upon a leaf spring, the purpose of which is to always force the ball outward to *always retain* a socket. Thus, the mechanism requires two hand operation, one to press the pin, and the other to pull the socket off against the pressure of the leaf spring. Under the pleadings, Carpenter was irrelevant to the fraud case, and on the facts, it is functionally and operationally far afield of the Roberts design. Absent any proper record resulting

from evidence in a justiciable controversy, plaintiff will not further discuss the very technical mechanical considerations involved in analyzing these irrelevant patents.

Sears never, in fairness, mentions the testimony of the well-qualified experts plaintiff called on rebuttal, being Professor Paul Youngdahl, formerly of the University of Michigan, and Norbert Fortman, principal tool designer and executive for Duro Metal Products Company. Without detailing their testimony, both Professor Youngdahl and Mr. Fortman explained at length the genius of Roberts' design compared to the different purposes, structure, and function and the different operational principles of the Gonzalez patent. Sears' heavy emphasis upon comparing the numerous common parts of ratchet wrenches in general, as Prof. Youngdahl explained (Tr. 2733, 2738), is of no persuasive quality when examining the remarkably inventive Quick Release feature which permitted full, one-hand operation for the first time.

Judge Leighton, who had the opportunity to hear the witnesses and judge their credibility, remarked that Mr. Youngdahl is a very qualified man (Tr. 2747), and that he did not think the facts support a finding of invalidity (Tr. 2878), and he concluded:

For instance, after I heard Mr. Youngdahl's testimony, I couldn't find this patent invalid under any circumstances. I would have to have more evidence in which the controversy would be squarely a controversy about his patent (Tr. 2887).

Sears' citation of a number of cases in support of the proposition that prior art may anticipate the challenged patent even though there are differences which are "insubstantial," only begs the question which must be resolved by a proper trial, being what the differences are,

whether they are substantial, and whether they would suggest themselves to one of ordinary skill in the art. From the description above of the testimony which would be available for presentation in a proper case, it is apparent that the differences between these several patents are dramatic and functionally important.

Similarly, Sears' reference to the obviousness concept has no proper place in this Petition, because Sears failed to mention the concept at trial, and because, again, this case is not and was not a proceeding in which the validity of the patent could be determined. If the issue has not been waived, it surely remains one of fact to be resolved in a proper case.

Sears cites a number of cases in a footnote to support the proposition that the statutory presumption of validity is "rebutted and does not apply" where there is evidence of relevant prior art not cited by the patent office. These decisions, however, only state half of the proposition, because many equally authoritative decisions hold that the presumption of validity is not weakened, and may even be strengthened, if the art cited by the patent office was as pertinent or more pertinent to the challenged patent than the uncited art asserted against it. See, e.g. *LaSalle Street Press, Inc. v. McCormick and Henderson, Inc.*, 445 F.2d 84, 93 (7th Cir. 1971); *Lancaster Colony Corp. v. Aldon Accessories*, 506 F.2d 1197, 1198-99 (2d Cir. 1974); *White v. Mar-Bel, Inc.*, 509 F.2d 287, 291 (5th Cir. 1975); *Moore v. Shultz*, 491 F.2d 294, 297 (10th Cir. 1974); *Safe-Gard Products, Inc. v. Service Parts, Inc.*, 532 F.2d 1266 (9th Cir. 1976). Moreover, although Sears does not say so in its Petition, in the District Court, Sears has claimed reliance on a number of the patents actually cited by the examiners in

the Roberts patent. We agree that these are more pertinent than the Gonzalez and Carpenter patents. And it has been held that the presumption of validity is *strengthened* when the art considered by the patent office is the same as the art asserted against the patent in later proceedings. *Chicago Rawhide Manufacturing Co. v. Crane Packing Co.*, 523 F.2d 452, 458 (7th Cir. 1975); *Briggs v. M & J Diesel Locomotive Filter Corp.*, 342 F.2d 573, 576 (7th Cir. 1965); *Schreyer v. Casco Products Corp.*, 97 F. Supp. 159 (D. Conn. 1951).

Because Sears has consistently avoided adjudication of the Roberts patent, because it was not in issue in the District Court, and because any adjudication would require the taking of evidence in a proper adversary proceeding, plaintiff suggests this inapposite argument provides no basis for granting certiorari.

III. THE EVIDENCE ABUNDANTLY DEMONSTRATES THAT PLAINTIFF SUFFERED SUBSTANTIAL DAMAGE AS A CONSEQUENCE OF SEARS' FRAUDULENT CONDUCT.

Based upon the inapposite and overbroad conclusion, not supported by citation of authority, that an invalid patent is valueless, and that absent a valid patent plaintiff has suffered no damage, Sears cites a number of Illinois cases for the proposition that a cause of action for fraud cannot be sustained absent a showing of damage. Response to this contention may be brief, for the Court of Appeals thoroughly reviewed the record and the same argument asserted below to conclude to the contrary that it is "abundantly clear" that this uncontested patent (not "invalid" patent) had significant economic value for Sears enabling it to monopolize a lucrative market for

several years. (*Roberts*, 573 F.2d at 981). Commenting upon Sears' "disingenuous" argument that the patent is valueless even though Sears made every effort to exploit the tremendous economic value of the uncontested patent, the Court of Appeals found "little difficulty finding that Sears' deception caused plaintiff to be injured in fact." (*Roberts*, 573 F.2d at 981).

If that were not enough to show the requisite element of damage, one need only make simple reference to the fact that the plaintiff relinquished to Sears not only a patent (which the plaintiff himself did not even know would issue), but the disclosure itself, the property of his prototype tool, his right to commercialize his invention worldwide, and the freedom Sears obtained from fear of an infringement action based on the Roberts patent. This frivolous argument affords no basis on which certiorari could conceivably be granted.

IV. THE TRIAL JUDGE'S CAREFUL RULINGS ON EVIDENTIARY ISSUES AFFORDED SEARS A FULL AND FAIR HEARING OF ITS THEORY OF DEFENSE.

Last, although again exhaustively reviewed by the Court of Appeals, Sears asks this Court to review this case based on a claim that evidentiary errors somehow denied Sears a fair trial. Regrettably, plaintiff must necessarily show in response that Sears' representations concerning the admission and exclusion of evidence contained in its Petition are demonstrably false.

Without repeating plaintiff's correction of Sears' description of what evidence was admitted for the plaintiff and excluded for the defendant concerning prior art (see Corrected Statement of Facts, at 10-12), it is sufficient to state here that plaintiff offered absolutely no

evidence concerning prior art except to describe the problems mechanics experienced in trying to remove sockets from the type of ratchet wrenches available on the market at the time Peter Roberts invented his Quick Release Device. Defendant was fully able to "oppose this evidence," had there been any evidence of a wrench available on the market containing the quick release feature. There was none. The Carpenter patent and other prior patents were asserted by Sears, not to rebut plaintiff's showing of the state of the commercially available wrench market, but to try to support its procedurally impossible argument about invalidity.

Contending that the Court of Appeals "erroneously perceived" that Sears' tender of such evidence went only to the issue of invalidity, an accusation against the Court of Appeals which is not true, Sears claims that the Carpenter patent and other excluded prior patents should have been admitted on the issue of "the value of plaintiff's patent." (Sears' Pet. at 25). Sears unaccountably continues to misapprehend the nature of the case which was tried in the District Court and affirmed on appeal. There was no issue in the case concerning the "value of plaintiff's patent." Indeed, it is Sears' patent to date. As the Court of Appeals approved, Judge Leighton carefully allowed Sears to introduce evidence which showed its state of mind and its valuation of Roberts' invention at the time it made its representations of poor merchantability and low value to Roberts. Sears judgment then was admittedly not based on the Carpenter patent. Sears' transcript reference to other patents which were then in its possession is misleading, for those were excluded not because they were unknown to Sears, but because Sears presented no witness and no evidence to show that Sears relied on them or took account of them in any way in forming its determination of value in 1965.

Concerning the appropriate measure of monetary recovery, none of this art could possibly be relevant unless the validity of plaintiff's patent had been in issue. As mentioned several times, the issue was not the value of plaintiff's patent, but the value of the *benefits Sears obtained* from use of plaintiff's invention, which included not only the presumptively valid patents, but the prototype, the disclosure itself, and the right to commercialize the invention in other countries.

Sears' contention that plaintiff argued below that "the value of his patent was the very nexus of his lawsuit" and that ". . . the trial court instructed the jury that its verdict should be based upon the value of the patent or idea (Sears Pet. at 25) misstates the very references Sears cites, which show that plaintiff's brief requested the value of *the use* of the property (PB 31, 32) and an award of money to measure the deprived value and to prevent unjust enrichment (PB 32). Particularly offensive is Sears' misstatement of the instruction involved, which did not speak of the patent at all, but only allowed the jury to consider the profits Sears received from plaintiff's Quick Release invention and idea. (Tr. 3469; A. 485; *Roberts*, 573 F.2d at 980, n. 2).

Defendant had a fair trial. No error whatever concerning the admission or exclusion of evidence has been shown, much less such error as would justify the grant of certiorari.

CONCLUSION

Nothing in public policy or patent law remotely suggests that a corporation guilty of fraud, breach of a confidential relationship, and misrepresentation may immunize its misconduct and protect its unjust enrichment by asking that its own patent be held invalid in a proceeding with no adversary and no justiciable controversy. The opinion of the Court of Appeals is consistent with controlling decisions of this Court and the other Circuit Courts of Appeal. Respondent respectfully requests that Sears' Petition for Writ of Certiorari be denied.*

Respectfully submitted,

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* In the event Sears' Petition is allowed, plaintiff respectfully requests that his pending conditional Cross-Petition For Writ of Certiorari, No. 78-29, also be allowed so that the Court has before it all of the issues affecting both parties.

APPENDIX

RETAIL MERCHANDISE LIST

Date Rec'd Division No. _____
 Dept. No. 2 _____ Year 1974-75
 Issued Jan. 26 '75
 Price "00"
 \$.00 TO ALL TERRITORIES EXCEPT:

To: *Chicago*

AUTOMOTIVE MECHANICS TOOLS

TWO YEAR LIST

DISTRIBUTION EXPLANATION

The number shown in the upper right hand corner of this page is the distribution number authorized for your store for this List. All reference to this distribution number in this List is information specifically directed to your store.

List. 001 indicates stores in all territories in the dollar value category up to \$150,000.
 List. 002 indicates stores in all territories in the dollar value category \$150,000 to \$250,000.
 List. 003 indicates stores in all territories in the dollar value category \$250,000 to \$400,000.
 List. 004 indicates stores in all territories in the dollar value category \$400,000 and over.

This list replaces pages D-A thru B13-106
 Issued 7/26/72 and consists of the following stock bearing units:
 Over 5 402, 007 to 5 OVER

SKU'S OFFERED									
P#	B1	B2	B3	B4	B5	Total SKU's			
112	117	118	119	120	121	606			
HSM 01	HSM 02	HSM 03	HSM 04	HSM 05	TOTAL HSBT				
SKU'S AFFIRMED (Below is for Store Use)									
B0	B1	B2	B3	B4	B5	Total SKU's			

3% ADDITIONAL HANDLING CHARGE

GET YOUR INITIAL ORDERS IN ONE TIME AND AVOID THE EXTRA CHARGE OF 3% (AT SELLING) ASSESSED ON ALL LATE INITIAL COVERAGE PURCHASE ORDERS OR REQUESTIONS FOR THE FOLLOWING SEASONAL LINES.

SEASONAL LINES

ORDERS MUST BE RECEIVED BY

NOTE

Identify all requisitions and purchase orders for initial stock with "Initial Coverage" stamp. The order due date and 3% penalty does not apply to Foreign Stores. Send your orders in as soon as possible.

BASIC-BASIC ITEMS

Basic-line Items of Merchandise constitute the MAJORITY of items which must be carried by all stores with 32,500 Sq. Ft. or more of selling area excluding farm store and service stations.

PRICING

The Prices and Markup shown in this list are RECOMMENDED on a logical price point basis. These prices are for your GUIDANCE; shop competition before establishing your store selling price for any item.

THE NATIONAL BALANCE OF SALE

For this Merchandise List is on Levered Page D-C/2

Average Markup for this List is 49 %.

[Signature]
 National Merchandise Manager
[Signature]
 Retail Sales Manager

DIVISION MANAGER

IMPORTANT - BEFORE SETTING UP THIS NEW MERCHANDISE LIST FOR LINE SELECTION AND ORDERING, FIRST READ THE COVER SECTION DETAILING THE PRINCIPLES OF MERCHANDISING THIS LINE OF MERCHANDISE.

If you are receiving more copies of this list than you need, or if this line of merchandise is not carried in your store, fill out and return this Coupon to:

Dept. 609 Chicago

AUTOMOTIVE MECHANICS TOOLS Dist. No. 094
 (Items at List)

We are now receiving _____ copies of the above list.
 We require only _____ copies.

(Store Stamp) (Store Manager)

Supreme Court, U. S.

FILED

SEP 28 1978

MICHAEL RODAK, JR., CLERK

IN THE
Supreme Court of the United States

OCTOBER TERM, 1978.

No. 78-26

PETER M. ROBERTS,

Respondent,

vs.

SEARS, ROEBUCK AND CO.,

Petitioner.

**REPLY OF SEARS, ROEBUCK AND CO. TO BRIEF IN
OPPOSITION TO ITS PETITION FOR WRIT OF
CERTIORARI TO THE UNITED STATES COURT
OF APPEALS FOR THE SEVENTH CIRCUIT.**

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OF APPEALS FOR THE SEVENTH CIRCUIT.**

I. Introduction.

In its petition for a writ of certiorari, defendant presented what it considers an objective review of the facts and evidence supported by numerous record citations. Plaintiff's so-called "factual" statement, on the other hand, is a mixed bag of innuendo, arguments and conclusions totally unsupported by and indeed contrary to the record. These misstatements and erroneous conclusions permeate each of plaintiff's arguments as well.

Defendant will not repeat the record references that unequivocally support each of its representations, for to do so would unduly burden this Court. Nor will it dwell here upon plaintiff's unwarranted attack upon the sincerity of its petition for a writ

of certiorari, other than to mention that its merit is clearly demonstrated by the decisions of this Court and the various Circuits which refused recovery under similar facts in *Lear, Inc. v. Adkins*, 395 U. S. 653, 23 L. Ed. 2d 610 (1969); *Blonder-Tongue Labs, Inc. v. University of Illinois Foundation*, 402 U. S. 313, 28 L. Ed. 2d 788 (1971);¹ *Scott Paper Co. v. Marcalus Mfg. Co., Inc.*, 326 U. S. 249, 90 L. Ed. 47 (1945); *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F. 2d 55 (7 Cir. 1970), *cert. denied*, 401 U. S. 976 (1971); *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 99 F. 2d 9 (1 Cir. 1938), *cert. denied*, 305 U. S. 659 (1939).² Rather, defendant will only address those of the misconceptions which plaintiff claims support his specious contention that this verdict may stand, irrespective of whether his patent is invalid and irrespective of the effect of prior art on its value.

II. Argument.

A. Plaintiff Cannot Distinguish the Federal Law That Conflicts with the Decision Below.

Plaintiff's argument, in a nutshell, is that there is value to a legally valueless patent. To arrive at this erroneous conclusion he casually waives a hand at or attempts to rewrite the decisions of this and other Courts.

If plaintiff's patent is directly anticipated and disclosed to the public by prior art, it conveys nothing under the law, and defendant, although it paid \$10,000, acquired nothing of legal

1. Plaintiff's charge that defendant did not rely on *Blonder-Tongue* below is wrong. Defendant relied upon this relevant decision and quoted from it extensively before the Court of Appeals (Brief on Cross Appeal, p. 14).

2. Defendant's comment below regarding this appeal followed an earlier settlement conference with the trial court. Of course, there would be no point to this appeal if the matter had been settled, which it was not.

value. No amount of commercial expectation, as plaintiff attributes to defendant, can make it valid. Nor, as plaintiff argues, did the patent, if invalid, convey any protectable secret ancillary rights. In fact, plaintiff conceded below that he did not claim a trade secret (T. 3226-3228). Similarly, plaintiff's patent, if invalid, did not, as he argues, convey a monopoly or even freedom from patent infringement litigation. As plaintiff concedes in his brief, defendant was required to purchase the prior art Gonzalez patent (PB 10)³ when Gonzalez threatened Sears with an infringement lawsuit (DX 16, 17, 18, T. 2266-2273). For these reasons alone the invalidity of plaintiff's patent is not only relevant but is a basic issue that cannot be ignored.

Plaintiff suggests that defendant considered his patent valid when it acquired it. But that factual misconception, even if true, which it is not, cannot magically render an invalid patent valid. The question of patent invalidity is, as plaintiff concedes, one of law (T. 3102-3104). Certainly the defendants in *Lear Inc. v. Adkins* and its progeny also initially considered valid the patents they acquired or they would not have purchased them. Nevertheless, those defendants were not barred from later asserting patent invalidity when they discovered that their initial belief was wrong, and defendant cannot be barred here. Indeed, the so-called estoppel concept now advanced by plaintiff was expressly rejected by those decisions. Similarly, nothing in those decisions even remotely suggests, as plaintiff argues, that they do not apply now because defendant is the owner of the patent. Indeed, as set forth in defendant's petition, several of them were expressly applied and others implicitly apply to a patent owner. See, for example, *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 99 F. 2d 9 (1 Cir. 1938), *cert. denied*, 305 U. S. 659 (1939); *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F. 2d 55 (7 Cir. 1970), *cert. denied*,

3. The letters "PB" refer to plaintiff's brief in opposition to defendant's petition, "PX" to plaintiff's trial exhibits, "DX" to defendant's trial exhibits, "R" to the record on appeal and "SA" to defendant's Supplemental Appendix on appeal.

401 U. S. 976 (1971). Clearly defendant was improperly barred from proving patent invalidity for these reasons also.

Equally fr^uacious is plaintiff's argument that, under these decisions, defendant is prevented from proving the invalidity of his patent until it repudiates the patent.⁴ The speciousness of this argument is clearly demonstrated by the Seventh Circuit's decision in *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F. 2d 55 (7 Cir. 1970), *cert. denied*, 401 U. S. 976 (1971). There, the Court specifically rejected plaintiff's contention, as follows:

Defendants attempt to distinguish the doctrines of licensee estoppel and estoppel by marking by suggesting that the former is based on principles of contract law, while the latter has its basis in equity. *But defendants' arguments in support of each of these doctrines sound very similar, namely, that it is unfair for licensees to use the patent and accept the benefits of the license and then attack the validity of the patent. However, the Supreme Court in Lear rejected such arguments when applied to the licensee estoppel doctrine, and we think the Court's reasoning extends to the doctrine of estoppel by marking as well. Defendants have not suggested any reason why the 'strong federal policy' in favor of encouraging challenges to invalid patents should not apply when there has been marking with the patent number. Perhaps it is true that such marking provides the licensee with additional protection from competitors, thus making it seem all the more unfair to allow him to repudiate his obligations. However, it must be noted that the Supreme Court in Lear . . . held that patent invalidity must be made a complete defense to the obligation to pay royalties. We cannot say that the additional consideration or 'benefit' flowing to the licensee who marks his products with the patent number is sufficient to make the Lear case and its policy rationale inapplicable. 433 F. 2d at 59 (emphasis added).*

4. It is appropriate to point out that plaintiff misstates the facts when he charges that defendant continues to publicly assert the validity of the patent. The record is clear that defendant removed all patent numbers from its wrench in October, 1971 (R. 59). Plaintiff relies on an isolated retail merchandise list that is not and never has been disseminated to the public (T. 1434-1436, 1609).

Such an estoppel argument was likewise rejected by the Court in *American Sterilizer Co. v. Sybron Corp.*, 526 F. 2d 542 (3 Cir. 1975), wherein it held that a licensee's failure to terminate the license agreement did not prevent its challenge to the validity of the underlying patent. *Id.* at 545-547. *See also*, *PPG Industries, Inc. v. Westwood Chemical, Inc.*, 530 F. 2d 700, 707 (6 Cir. 1976), *cert. denied*, 429 U. S. 824 (1976).

However, even if, as plaintiff asserts, repudiation was necessary, it is clear that defendant repudiated the patent in written answers to interrogatories as early as September, 1971, immediately upon its discovery of the crucial prior art Carpenter patent, and repeatedly thereafter in other responsive pleadings (R. 19, 37, 83, 110). In view of defendant's repudiation as early as 1971, under plaintiff's own theory, the jury award of profits or damages from 1971 through 1976 was improper and requires a new trial.⁵

Plaintiff is less than candid with this Court when he suggests that defendant delayed repudiating the patent to prevent a prompt decision on patent invalidity. What plaintiff understandably does not mention is that he, rather than defendant, prevented a prompt resolution of the issue by repeatedly arguing in the trial court that patent invalidity should not be resolved. Plaintiff's arguments to bar a trial on the validity issue were regularly rejected by the two judges to whom the case was assigned before its reassignment to the trial court shortly before trial (R. 40, 56, 82). It was only after the trial was nearly completed that defendant learned for the first time that it would not be permitted to prove that the patent was invalid (T. 2567-2569, 2976). By then, of course, it was too late to rely on any

5. Rather than jealously guard these worthless patents, as plaintiff argues, defendant has previously voluntarily prepared, executed and tendered its reassignments of *any and all* rights and patents obtained under and pursuant to its written agreement with plaintiff. Plaintiff rejected these reassignments (Transcript of hearings of May 26, 1978 and June 19, 1978), presumably on the basis that the patents are as worthless to him as they are to defendant.

of the other procedures which plaintiff suggests would have been appropriate.⁶

The decisions that plaintiff relies upon for this so-called estoppel concept simply and plainly do not support his argument for in none of them was a party precluded from litigating the issue of patent invalidity as defendant has been precluded here. Thus, contrary to plaintiff's assertion, *Moraine Products v. ICI America, Inc.*, 538 F. 2d 134 (7 Cir. 1976), *cert. denied*, 429 U. S. 941 (1976), is an antitrust decision that held that a patentee could recover money damages where he was prevented from commercializing his idea because of an illegal conspiracy by others in violation of the antitrust laws.

⁶ Similarly, *Kraly v. National Distillers and Chemical Corp.*, 319 F. Supp. 1349 (N. D. Ill. 1970), *aff'd*, 502 F. 2d 1366 (7 Cir. 1974), expressly approved the *Beckman* rule and only held that defendant, as a party to a settlement agreement in a patent infringement lawsuit, could not avoid his express contractual royalty obligation under that settlement agreement while at the same time accepting the benefit of the same agreement. Moreover, this decision does not apply here because it is undisputed that defendant discharged each of its contractual obligations under its agreement with plaintiff, including its agreement to pay plaintiff a \$10,000 royalty (T. 380-382, 407, 533-534).

The decision in *Troxell Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F. 2d 1253 (6 Cir. 1972), and 489 F. 2d 968 (6 Cir. 1973), *cert. denied*, 416 U. S. 939 (1974), is equally inapplicable for that decision merely holds that a licensee who has previously paid a royalty may not recoup that royalty payment after the patent has later been declared invalid. Similarly, *Heltra, Inc. v. Richen-Gemco, Inc.*, 395 F. Supp.

6. One of these procedures advanced by plaintiff suggests that defendant could have litigated a patent infringement lawsuit against another to obtain a more expeditious resolution of the patent's invalidity. This argument is no more than a suggestion that defendant speciously and maliciously prosecute a claim that it believes is meritless—a clear abuse of the judicial system.

346 (D. S. C. 1975), *rev'd on other grounds*, 540 F. 2d 1235 (4 Cir. 1976), simply rules that a determination of patent invalidity will not affect a royalty obligation under an agreement that expressly required the royalty payment regardless of the validity of any patent that would ultimately issue.

Finally, *Kewanee Oil Corp. v. Bicron Corp.*, 416 U. S. 470, 40 L. Ed. 2d 315 (1974), does not support plaintiff. In *Kewanee* this Court merely ruled that an unpatentable idea may still be a trade secret which, if misappropriated, will support a cause of action for damages. This decision is not applicable here because plaintiff does not claim a trade secret (T. 3226-3228) for the obvious reason that his idea was completely disclosed by prior art. Clearly, the Court of Appeals' and plaintiff's reliance on this decision is misplaced.

Even if the issue of patent validity was initially somehow irrelevant, which it was not, it became relevant because plaintiff made it relevant. His argument that he did not offer evidence on this issue is refuted by his own brief, for he concedes that he argued the validity of his patent to the jury (PB 12, T. 3300, 3312-3314, 3316, 3317, 3322, 3330, 3331, 3337-3341, 3343, 3347, 3351-3352, 3354, 3358-3361, 3362-3364, 3421-3422, 3432A, 3435-3436) and devoted a substantial portion of his examination of his own witnesses toward developing the novelty of his invention (T. 195-198, 302-303, 378-380, 613 *et seq.*, 732 *et seq.*, 736-738, 1441-1443, 1448, 1463, 1513-1516, 1517-1518, 1521, 1529, 2302). Indeed, he argues its novelty even now (PB 26-33).

Having received evidence of the prior art when proffered by plaintiff, and having time and again expressed itself with respect to the relevancy of evidence of the prior art (T. 65, 96-99, 101, 105-109, 461-463, 465, 490, 493-495, 508-509, 624, 1190-1192, 2164, 2197-2198, 2202-2203, 2401-2402, 3163-3165, 3188-3190, 3360-3361), the trial court nevertheless excluded such evidence when proffered by defendant on the erroneous basis that defendant was unaware of and did not rely on the

prior art when it acquired plaintiff's patent (T. 2409-2410, 2425-2429). Thus, it excluded from evidence the prior art Carpenter patent and all of defendant's testimony and exhibits thereon (T. 2409-2413, 2416, 2425-2429, 2600) notwithstanding the fact that it had received evidence from plaintiff regarding this same patent (T. 732-738). This procedure denied defendant its due process right to a fair trial and alone requires that a writ of certiorari issue. Indeed, even if it could be said that defendant's unawareness of prior art patents was a proper basis for their exclusion from evidence, the exclusion was still error as to seven prior art patents that defendant clearly relied upon when it negotiated with plaintiff (PX 28, 34, DX 8, 9, 14, T. 2146-2157, 2232-2233, 2242, 2317-2318).

Plaintiff's misconception of the issue reaches a new dimension when he argues that the jury considered and rejected defendant's argument that the prior art Gonzalez patent invalidated plaintiff's patent (PB 5). Although the validity or invalidity of plaintiff's patent over Gonzalez is clearly a question of law, when the trial court refused to consider this question, defendant, as a last alternative, tendered jury instructions thereon (T. 3101-3104). How can it be said that the jury considered this prior art Gonzalez patent when plaintiff opposed and the trial court rejected each and every jury instruction tendered by defendant regarding the Gonzalez patent, its relationship to plaintiff's patent and the validity or invalidity of plaintiff's patent (T. 3101-3104)?

For the foregoing reasons, and each of them, defendant respectfully requests that a writ of certiorari issue.

B. Plaintiff's Patent Is Invalid as a Matter of Law, the Trial Court Erred When He Refused to Rule on This Question and This Court Should Now Rule Thereon.

In its Brief on Cross Appeal defendant irrefutably demonstrated the invalidity of plaintiff's patent by reference to prior patents issued to Eugene R. Carpenter in 1928 (DX 29, SA

83-115) and Victor E. Gonzalez in 1965 (DX 28, SA 42-82, DX 35, 36, 37), the testimony of plaintiff's own patent lawyer (T. 724-725) and the applicable law.

1. Plaintiff's Patent Is Invalid Over Carpenter.

Simply ignoring the Carpenter structure and the unequivocal language of that patent, plaintiff erroneously states that the Carpenter wrench (1) applies to a "brace" rather than a wrench, (2) contains no head or stud extending from a side surface of the head, (3) has no recess for selective alignment, (4) has a ball that rides upon a leaf spring rather than a surface of the pin for the purpose of retaining a socket and (5) requires a two-handed operation to release the socket (PB 27). The speciousness of each of these statements is clearly demonstrated by the Carpenter structure and by the express language of the Carpenter patent. (For the convenience of the Court, reproductions of each of defendant's chart exhibits of the Carpenter, Gonzalez and plaintiff's structure are affixed hereto.)

Plaintiff's assertion that the Carpenter patent applies to a "brace" rather than a socket wrench is refuted by the following language of the Carpenter patent:

My invention relates to improvements in wrenches of that type which comprise a handle member having socket members detachably and reversibly connected with the handle, and the invention consists in the combinations, constructions and arrangements herein described and claimed. (SA 85, ll. 1-7, emphasis added.)

See also SA 86, ll. 128 ff.; 87, 1.3.

Equally erroneous is plaintiff's assertion that Carpenter does not disclose a head. A head is merely "the end of something regarded as the upper or higher end" or the "uppermost extremity of an object" or "the front or foremost part of something." Webster's *Third New International Dictionary*, p. 1042, defs. 7a, 12 and 23 (1971). It is clear from these common dictionary definitions that the head of the handle on the Carpenter wrench is the upper and foremost end of the handle

(colored green on each of defendant's chart exhibits). Plaintiff's casual denial of this basic proposition is astonishing.

Plaintiff's next contention, that the Carpenter wrench does not provide for a stud extending from a side surface of this head, also is belied by the Carpenter structure and the language of the Carpenter patent. The Carpenter stud, like the stud on plaintiff's structure, is colored brown on each of defendant's chart exhibits. The purpose of the stud, referred to by Carpenter as a "supporting end member" or "out-turned end portion" (SA 85, ll. 48-60), and referred to by plaintiff as a "driver" or "stud" (SA 19, col. 1, ll. 40-44), is to drive a socket, which plaintiff concedes Carpenter accomplishes (PB 27). Both plaintiff and Carpenter describe the stud as a hexagonal or other non-circular configuration. For example, Carpenter describes the stud as follows:

The *non-circular* portion of each of these supporting end members of the wrench handle is straight for its entire length, and preferably is *hexagonal* in cross-section configuration (SA 85, ll. 55-60, emphasis added).

Plaintiff defines his stud as follows:

The stud 14 is ordinarily square, *hex*, etc., but can be of any *non-circular* shape in order to drive a socket 16, *these all being well-known in the art* (SA 19, col. 1, ll. 41-43, emphasis added).

Similarly spurious is plaintiff's assertion that the Carpenter tool does not have a recess for selective alignment. The Carpenter recess, referred to by Carpenter as a "cavity" (SA 86, ll. 15-17), is clearly disclosed by the number 18 on the Carpenter structure, colored white on defendant's chart exhibits, and Carpenter expresses the function of this recess as follows:⁷

The pin 9 is provided at a slight distance from its inner end with a *cavity* 18 which is formed in the side of the

7. "Cavity" and "recess" are universally recognized to be synonymous terms. See, e.g., Roget's *Thesaurus*, pp. 82, 392 (Garden City Books Edition, 1961).

pin 9 that is next to the ball latch member 6. The *cavity* 18 is sufficiently large to partially *receive* the ball member 6 when the *cavity* 18 is in register with the opening 5. The action of the spring tends to maintain the pin 9 in its outermost position in the bore 4 and at such time the cavity 18 is located out register with the opening 5 as shown in Fig. 2. The *cavity* 18 intersects the slot 14 as shown and when it is desired to *release* the socket member 8 from the associated end portion 2 of the wrench handle, the pin 9 is forced axially inward against the action of spring 13 until the engagement of the outer end of the cavity 11 with a guiding and retaining member 19 prevents further inward movement of the pin 9. The *cavity* 18 then will be disposed in register with the inner end of the opening 5 and the ball latch member 6 will move inwardly by force in the opening 5 out of the groove 7 so the ball 6 [sic socket member 8] will move partially into the cavity 18 (SA 86, ll. 11-36, emphasis added).

It is also clear from the foregoing description that when the ball enters the cavity it will no longer secure the socket member and the socket member will be released from the ratchet or other handle and will fall by gravity. See also SA 86, ll. 108-114; 87, ll. 7-8, 27-28, 49-50, 66-72, 79-80, 89-119. Thus, plaintiff's conclusion that the Carpenter wrench is a two-handed tool designed only to retain a socket is therefore also false. What plaintiff describes as a recess, Carpenter describes as a cavity, but they are the same thing and serve the same purpose.

Finally, plaintiff's assertion that the Carpenter ball rides on a leaf spring rather than a surface of the pin is incorrect. Plaintiff ignores the express language of the Carpenter patent which provides:

[In the locking position] *the inner-end portion of the pin will support the ball latch member 6* in its outermost latching position in the opening 5 and the associated socket member 8 will be held in place on the end member 2 of the wrench handle (SA 85, ll. 95-101, emphasis added).

Moreover, the purpose of the leaf spring is not, as plaintiff concludes, to retain a socket, but rather, as Carpenter expressly provides, its purpose is to ride underneath the ball detent to prevent the ball from becoming frozen or stuck in the recess as follows:

This inward movement of the ball latch member 6 is effected against the action of the arm 15 of the spring member 15-16 *which is not sufficiently strong to maintain the ball latch member 6 in its latching position but which will tend to prevent the ball latch member 6 from sticking or becoming frozen in place in the cavity 18. . . .* It therefore, will be apparent that clogging of the operating and latching parts of the device will be practically prevented so that uniformity of the operation of the latching mechanism for holding the socket member 8 on a supporting end portion of the wrench handle will be assured (SA 86, ll. 36-59, emphasis added).

As disclosed by the foregoing, under the Carpenter patent, as in plaintiff's patent, it is the pin rather than the leaf spring that supports the ball in its locking position. As is also clear from the foregoing, the Carpenter leaf spring does not and cannot support the ball in its outward looking position but is a refinement that prevents the ball from becoming frozen in the recess.

2. Plaintiff's Patent Is Also Invalid Over Gonzalez.

Plaintiff also argues that Gonzalez (1) provides only a retention function, (2) has no recess in the pin and (3) does not carry the ball detent on a surface of the pin but rather on a flange of the pin (PB 27). Each one of these contentions is specious.

That Gonzalez provides a release function as well as a retention function is clearly demonstrated by the language of his patent which states:

A manually operable button or head permits the rod to be moved in the shaft for *releasing* the ball. The ball in

its outermost position in the bore engages in a recess of a tool removably mounted on the shaft. *When the ball is in its innermost position the tool is released and can be removed from the shaft.* (SA 45, l. 20, emphasis added.)

See also SA 46, col. 4, ll. 31-35. Indeed, plaintiff's own expert witness repeatedly conceded at trial that when the Gonzalez pin is depressed, the ball falls into a recess and the socket member is thereby released (T. 2667, 2682-2783, 2784, 2787).⁸

The Gonzalez structure, as does plaintiff's structure, discloses a pin with a flange as an integral part thereof (blue),⁹ a ball (red) that rides on the top of the flange and a recess (white) defined by the flange portion of the pin and the head of the ratchet. The Gonzalez patent expressly provides for this recess to release a socket member as follows:

Shaft 46 is axially aligned with rod 36 so that when head 50 and shaft 46 are pressed inwardly of the casing, as shown in Fig. 3, the rod 36 is moved axially to *release* the ball so that it can be moved radially inward of shaft 14 out of *recess* 33 and tool 30. If the pressure on end 50 is relaxed the rod 36 will normally tend to move to locking position in which flange 38 engages the ball 28. (SA 45, col. 2, ll. 51-58.)

Thus, when the rod or pin is moved axially, the ball is released from the flange and falls into a recess.

Finally, plaintiff suggests that the existence of a flange as an integral part of the Gonzalez pin, rather than a "cammed surface," avoids an anticipation by Gonzalez. This argument is misplaced for the simple reason that plaintiff's patent does not claim as invention the absence of a flange or existence of a

8. Significantly, it is not what these prior patents claim but what the patents, their specifications and their drawings disclose that is relevant, for if each of the elements of plaintiff's claim is disclosed by them by any means whatsoever, plaintiff's patent is invalid.

9. Plaintiff's own witness concedes that this flange is or may be an integral part of the Gonzalez pin (T. 2789).

"cammed surface." Under the language of his claim a flange or, alternatively, a "cammed surface," may or may not be included.¹⁰ Thus, in this connection plaintiff only claims as invention a detent that is "normally engaged with a surface of the pin." It is clear from the Gonzalez structure that the detent is so engaged.

Thus, whether one considers the prior art patents, the testimony of plaintiff's witnesses, or the testimony of defendant's witnesses, individually or collectively, it cannot be disputed that each and every element of plaintiff's claim is found in the prior art and thus plaintiff's patent is directly anticipated by prior art.¹¹

10. It is well settled that the validity of plaintiff's patent may only be determined by the unambiguous language of his claim and not by reference to drawings or patent specifications. *Maclaren v. B-I-W Group, Inc.*, 535 F. 2d 1367 (2 Cir. 1976), *cert. denied*, 429 U. S. 1001 (1976); *Phillips Industries, Inc. v. State Stove and Manufacturing Co., Inc.*, 522 F. 2d 1137 (6 Cir. 1975), *cert. denied*, 423 U. S. 1055 (1976); *Borg-Warner Corp. v. Mall Tool Co.*, 217 F. 2d 850 (7 Cir. 1954), *cert. denied*, 349 U. S. 946 (1955); *Dickstein v. Seventy Corp.*, 552 F. 2d 1294 (6 Cir. 1975), *cert. denied*, 423 U. S. 1055 (1976); *Graver Tank & Mfg. Co. v. Linde Air Prod. Co.*, 336 U. S. 271, 93 L. Ed. 672 (1948); *Bela Seating Co. v. Poloron Products, Inc.*, 297 F. Supp. 489 (N. D. Ill. 1968), *aff'd*, 438 F. 2d 733 (7 Cir. 1971), *cert. denied*, 403 U. S. 922 (1971). For similar reasons, any testimony from plaintiff's witnesses regarding the superiority of plaintiff's patent for self-adjustment for wear or different socket size because of the absence of a flange is irrelevant to the validity of plaintiff's patent.

11. Certainly, any improvement over prior art was also obvious as a matter of law and plaintiff's patent is invalid for this reason. Plaintiff responds to this argument with the observation that defendant suggested no offer of proof on this issue. What plaintiff fails to recognize is that the question of obviousness is a question of law. Plaintiff's evidence of patent validity over Gonzalez is limited to testimony from his witnesses that his patent structure discloses a "cammed surface" rather than a flange (T. 2735-2739, 2756-2757, 2759, 2760-2761, 2763-2764, 2800). This testimony, irrelevant because plaintiff does not claim a "cammed surface," nevertheless, could not be a patentable improvement because it is shown in the prior art. Thus, Carpenter discloses this very cammed surface in his patent specification (SA 86, ll. 44-46) and structure (DX 37, SA 84) and plaintiff's witnesses concede the shape of the Gonzalez pin can be altered (T. 2737-2738). Defendant does not understand what additional offer of proof was required or would be appropriate.

For these reasons, too, defendant respectfully requests that a writ of certiorari issue.

CONCLUSION.

For each of the reasons set forth above, and those set forth in its Petition, petitioner respectfully prays that this Court issue a writ of certiorari and thereafter rule that the judgments of the United States Court of Appeals for the Seventh Circuit and of the United States District Court for the Northern District of Illinois must be reversed, and that judgment be entered for defendant. Alternatively, upon reversal of these judgments, this matter should be remanded to the District Court for a new trial.

Respectfully submitted,

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